Φ

Austria	Sch26	Indonesia	Rp3100	Philippines	Pso40
Bahrain	Din0.700	Iran	Ris210	Portugal	Esc150
Belgium	BFr55	Israel	Shk3.50	Qatar	QR5.50
Cyprus	C£0.90	Italy	L2000	S.Arabia	SR7.00
Denmark	DKr12.00	Jordan	Fils1000	Singapore	S$4.10
Egypt	E£3.25	Kuwait	Fils.500	Spain	Pta165
Finland	FM8.50	Lebanon	L£[illegible]	Sweden	SKr12
France	FFr7.50	Lux	LFr55	Switz	SFr2.50
Germany	DM2.50	Malaysia	Rlm4.25	Thailand	Bht50
Greece	Dr150	Morocco	Dh8.00	Tunisia	Din0.800
Hong Kong	HK$12	Neth	Fl3.25	Turkey	L1400
Hungary	Ft107	Nigeria	Naira16	UAE	Dh7.00
Iceland	IKr150	Norway	NKr12.00		
India	Rs15	Oman	OR1		

EUROPE'S BUSINESS NEWSPAPER

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TAIWAN

Old guard make last ditch stand

Page 4

World News

East German resignation comes as a blow to Kohl

Mr Wolfgang Schnur, leader of Democratic Awakening, one of the parties in the East German centre-right Alliance for Germany, resigned over his links with the Stasi secret police.

The news overshadowed a triumphal final pre-election rally for West German Chancellor Helmut Kohl in Leipzig. Page 16

Role for Poland

The two German states and the four Second World War allies – the US, Soviet Union, Britain and France – agreed to involve Poland in talks about German unification. Page 16

Arms talks resume

Nato and Warsaw Pact diplomats today resume talks in Vienna on reducing conventional forces despite increasing uncertainty about how German unification will affect the outcome. Page 3

EC compromise

The European Parliament produced an expensive compromise over where it should meet. Twelve plenary sessions a year will be held in a new Strasbourg building but it will also rent facilities in Brussels for additional meetings.

New jobs for 8.5m

Some 8.5m new jobs have been created in the European Community since 1984, European Commission officials said.

Iraq snubs UK

Iraq rebuffed an offer by British Foreign Secretary Douglas Hurd to meet President Saddam Hussein in Baghdad and discuss the fate of Farzad Bazoft, the London-based journalist sentenced to death on spying charges. Page 4

Mongolian reform

Mongolia's ruling communist party elected a reformist leader and relinquished its 66-year-old monopoly on power, paving the way for possible democratic elections. Page 4

Last-minute rush

Thousands of Romanians swarmed into Austria in a last-minute race to beat visa curbs as the Vienna Parliament debated controversial new entry rules.

Pakistan accused

Afghan Foreign Minister Abdul Wakil accused Pakistan of organising the failed coup against President Najibullah last week.

Driver saves lives

A London underground train travelling through a tunnel in the wrong direction only avoided collision with a stationary train jammed with 800 passengers because of quick thinking by a driver. Page 8

Durban murder

A senior white South African riot unit officer shot dead in his car near Durban was among four fatalities, 39 injuries and 37 arrests reported in a wave of arson and murder. Budget shift, Page 16

Mother, aged nine

A nine-year-old Turkish girl has given birth to a healthy boy. Both children are doing well.

Manchester's bid

Manchester, in north-west England, announced its bid for the 1996 Olympics. Plans include a £500m ($800m) stadium development. Page 8

PoWs set free

Twenty Egyptians captured fighting for Iraq during the Gulf war flew home to Cairo following their release by Iran.

That'll do nicely

France is to receive a large collection of Pablo Picasso's works in lieu of death duties on the estate of the artist's widow, Jacqueline.

Business Summary

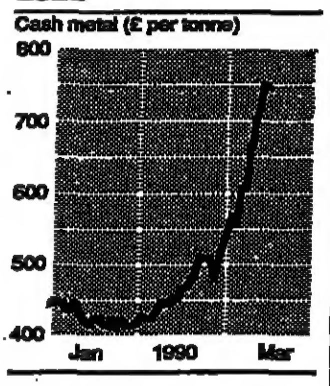
MCA to take over Geffen Records in surprise deal

MCA, big Hollywood entertainment group which controls Universal Pictures and one of America's biggest record companies, surprised the US music industry by signing a definitive agreement to buy Geffen Records and its music publishing businesses in a deal worth more than $500m to David Geffen, chairman and founder. Page 17

MARKETS: The London Metal Exchange took steps towards cooling down the lead market, where the premium for cash lead over metal for delivery in three months has reached unprecedented levels. Commodities, Page 30. In Tokyo the Nikkei average fell 268.44

Lead

Cash metal (£ per tonne)



at 32,352.13, taking its decline over the past three days to five per cent. US equities traded quietly in a narrowly mixed range after starting the day on a stronger note following a rebound in the bond market. Back page, section II

SOUTH Africa: Switch in spending from defence to social welfare programmes for blacks, coupled with concessions to white taxpayers, was unveiled in the 1990-91 budget. Page 16

BRITISH Government is pushing hard in Brussels for Europe to adopt a common policy for the control of takeovers based on the UK model. Page 2

FIAT, Italian car maker and the country's largest industrial concern, said it was suspending production at some plants with about 56,000 workers laid off because a strike by truck drivers had cut supplies of parts. Page 2

TRADE: Economic framework agreement will be signed between Mexico and Canada, aimed at laying the basis for expansion of trade and investment flows. Page 5

EUROPEAN companies are planning more investment, mergers and joint ventures to prepare for 1992. Page 3

THAILAND: Higher interest rates appear inevitable after rises in inflation and indications the Government may have to concede a rise in minimum wages. Page 4

BRAZIL: Banks and financial markets closed after speculation over Brazil's imminent economic package. Page 6

FRENCH pharmaceutical group Institut Mérieux, controlled by Rhône Poulenc, dismissed the entire senior management of Connaught BioSciences less than three months after taking control of the Canadian vaccine maker. Page 17

Toys R US, big US chain of toy stores, announced another record year, in spite of flat earnings in the second and third quarters. Page 18

ROVER Group, vehicles subsidiary of British Aerospace, only barely improved its slender profit margin last year and remained one of the least profitable car makers in Europe. Page 26

NOVO Nordisk, Danish pharmaceuticals and enzymes group, announced a 10 per cent rise in pre-tax profits from a pro forma DKr953m ($145m) in 1988 to DKr1.05bn in 1989. Page 19

Gorbachev wins battle for sweeping executive powers

By Quentin Peel in Moscow

THE WAY was cleared yesterday for Mr Mikhail Gorbachev to become the Soviet Union's first executive President, armed with sweeping emergency powers to deal with the country's economic and political crises.

However, this came only after dire warnings that a national election campaign could precipitate a civil war.

Mr Gorbachev was left as the single candidate for election by the Congress of People's Deputies, the supreme constitutional authority, after a sensational day, which saw Mr Nikolai Ryzhkov, the Soviet Prime Minister, threaten to resign together with his government.

Mr Gorbachev was forced to use secret threats of his own resignation to persuade radical deputies not to insist on a nationwide poll.

A call for direct elections was defeated with 45 votes more than the two-thirds majority the Soviet leader needed. Both alternative presidential candidates – Mr Ryzhkov, and Mr Vadim Bakatin, the Interior Minister – then withdrew. The official result of the vote will be announced today.

Earlier, Mr Gorbachev's aides summoned leading radical deputies to warn them that the Soviet leader would resign rather than call direct presidential elections given the explosive political atmosphere in the country.

Mr Gorbachev also allowed a string of concessions in the powers of the presidency, as part of further urgent efforts to reassure supporters of greater democratic reforms and dissident nationalists in the non-Russian republics and regions.

Just before the vote, Academician Dmitri Likhachev, father of the Congress, a former Stalinist detainee, and the conscience of the nation since Dr Andrei Sakharov's death, made a passionate appeal to elect Mr Gorbachev without delay, and to let him remain Communist Party leader.

"Our country is swept with emotion," he said. "Under the circumstances, a direct election of the president will lead straight to a civil war."

Mr Anatoly Sobchak, a radical Leningrad lawyer, was persuaded to drop his objections to direct presidential elections, and so swing many other radicals behind the president.

Mr Ryzhkov, whose powers as Prime Minister will be curbed by the new presidency, rounded on his critics, and offered the resignation of the entire government, if the Congress did not stop criticising the administration.

His speech gave the first public hint of deep strains within the Soviet Government.

Yet Mr Ryzhkov, previously a devoted follower of Mr Gorbachev, although a much more cautious and conservative figure, then insisted on withdrawing his own candidacy.

Despite the absence of rivals, Mr Gorbachev still faced some sharp criticism from the floor, both openly from radical deputies, and, between the lines, from conservatives, and one army officer.

East German alliance leader resigns; Poland to take part in unification talks, Page 16

KAIFU GOVERNMENT DECIDES SUBSTANTIAL REPONSE URGENTLY REQUIRED

Tokyo accelerates efforts to ease US trade frictions

By Ian Rodger in Tokyo

THE Japanese Government, saying that trade friction threatened a crisis in relations with the US, yesterday dramatically speeded up its efforts to respond to Washington's demands that Japan broaden access to its markets.

Mr Toshiki Kaifu, Prime Minister, summoned Mr Kabun Muto, Minister of International Trade and Industry, Mr Ryutaro Hashimoto, Finance Minister, and Mr Taro Nakayama, Foreign Minister, to a late evening meeting to work out firm proposals to ease the rising tension.

The move reflected recognition by Japanese Government leaders that whatever the merits of US demands, a substantial response was required urgently.

Mr Nakayama said in an unusually candid statement: "We should recognise this as a matter of crisis control in the Japan-US relationship.

"The mounting discontent in the US Congress against the huge Japan-US trade imbalance can be said to be in a hair trigger situation. Deterioration of sentiments towards Japan appears to be spreading nationwide in the US."

The minister said protectionist sentiment in the US was becoming so strong that it threatened not only the US-Japan relationship but also the collapse of the multilateral trading system.

That would bring "an unfathomable loss toJapan's national interest," Mr Nakayama said. Mr Robert Mosbacher, US Commerce Secretary, meeting Mr Muto in Tokyo yesterday for an agreement on some trade measures, was quoted as telling him that the two countries faced hurdles which they should overcome to establish a global partnership.

In separate talks with Mr Nakayama, he urged Japan to rapidly solve bilateral trade problems which threatened to damage the US-Japan relationship.

The US is pursuing trade issues with Japan on two levels.

● In the context of the so-called Super 301 Provisions of the 1988 Trade Act, it is seeking the opening of Japanese markets in three specific sectors – supercomputers, satellites and forest products.

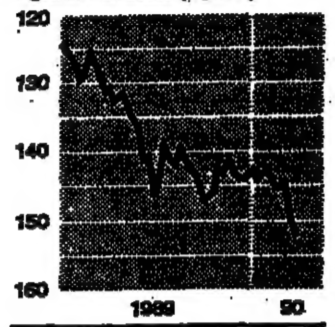
● Under the Structural Impediments Initiative (SII) launched by the two countries last summer, it is demanding a strengthening of Japan's anti-monopolies law, the removal of impediments to expansion of large-scale retail stores and greater public works spending by the Japanese Government. The two governments have agreed to submit proposals for removing structural impediments to trade in an interim report on their talks early next

Continued on Page 16

Robert Mosbacher, US Commerce Secretary (left), with Japanese Foreign Minister Taro Nakayama at the start of talks yesterday

Yen

Against the dollar (¥ per $)



Pressure on interest rates continues to increase

By Stefan Wagstyl in Tokyo

MR YASUSHI MIENO, governor of the Bank of Japan, was due to return to Tokyo today after a week-long visit to Europe, amid speculation that he plans to raise interest rates in order to restore confidence in Japan's financial markets.

When Mr Mieno left, some policy planners hoped that, after falling sharply since the beginning of the year, Japanese stocks, bonds and the yen were at last showing signs of stabilising.

But things have got more difficult for the authorities in Mr Mieno's absence, increasing pressure for an increase in the Official Discount Rate, the key short-term rate.

The yen, which stood at about Y150 to the US dollar a week ago, has dropped sharply – at one point touching its lowest level for three years, and closing in Tokyo yesterday at Y152.10.

The inability of the central bank to hold the line at Y150,

Continued on Page 16

World Stock Markets, Page 39

5,000 jobs to go at SmithKline Beecham group

By Peter Marsh in London

SMITHKLINE Beecham, the Anglo-American pharmaceuticals and consumer goods company formed after a £6.5bn ($9.7bn) merger last July, plans to cut its global workforce by 10 per cent, or roughly 5,000 jobs, over the next two years.

It will also close 60 of its worldwide manufacturing, administrative and distribution sites.

The group had been expected to slim down its combined operations as a result of the merger, which made it one of the world's top three pharmaceutical companies together with Merck and Bristol-Myers Squibb, both of the US.

SmithKline Beecham announced the cutbacks in unveiling pre-tax profits for 1989 of £724m, up 3 per cent on the notional sum of £703m achieved for 1988, when the company existed as separate units.

These latest profits were held back by a large interest payment of £162m, mainly on loans taken out at the time of the merger. The group was formed from the combination of SmithKline Beckman of the US and Britain's Beecham.

Analysts said yesterday they were disappointed at the small increase in pre-tax profits and the large interest payment for 1989, indicating a high level of debt. On the London stock market, the company's shares dropped 30p, closing at 500p.

The company also announced restructuring costs of £500m arising from the consolidations planned over the next few years. It will close sites and combine operations such as research and development and drugs marketing.

Mr Bob Bauman, chief executive, said he was confident that the company would regain the money within three years.

He was disappointed with some elements of company performance since the merger, chiefly the lack of progress in selling its cosmetics division. The company has been seeking buyers for several months and it is thought that the unit could fetch between £350m and £400m.

The cosmetics unit employs about 7,000 of the company's total workforce of 62,000. SmithKline Beecham is planning its 10 per cent overall job cut after allowing for the planned disposal of this division.

Mr Bauman also said that the small clinical laboratories division had performed poorly last year, but: "We are acting aggressively to deal with this."

On the subject of other possible disposals, Mr Bauman said the group was considering the sale of several small-selling brands, mainly pharmaceuticals.

The company also recently put up for sale the part of the group making its Marmite, Ambrosia and Bovril food brands. It said several companies had shown interest and it was thought the sale could fetch £100m to £150m.

Group sales increased by 14 per cent, from £4.3bn to £4.9bn. Profit at the trading level, before the interest payment, increased by 12 per cent from £728m to £818m.

Growth in earnings per share was static, the figure turned out again at 36.5p. The final dividend of 3.2p per share brings the total for the year to 5.2p.

Lex, Page 16

Foreign investment in US rises by $61.3bn to record $390.1bn

By Peter Riddell, US Editor, in Washington

FOREIGN ownership of US businesses and property rose by a record $61.3bn last year to a total of $390.1bn, according to Commerce Department figures. By contrast, direct investment overseas by US companies rose much more slowly, by $32.3bn to $359.2bn.

The increase in foreign investment in the US compared with $58.4bn in 1988. The figures cover investments in 10 per cent or more of equity.

The British last year continued to increase their lead as the largest direct investors in the US – raising their holdings by nearly $21bn to $122.8bn. The largest acquisition was of SmithKline Beckman by Beecham.

However, the Commerce Department figures are somewhat misleading since they show totals at book value. Since much of the US investment was made some time ago it is worth more at market value. An analysis by the Association for International Investment, a group arguing for free investment flows, notes that on the basis of Federal Reserve calculations US holdings overseas were worth around $785bn against foreign investments in the US of $466bn.

A striking feature of the late 1980s has been the dominance of British investment, accounting for 31 per cent of the total at the end of 1989, against 18 per cent a decade earlier.

Manufacturing accounts for more than a third of British investment and the big change has been the increased stake in the petroleum industry (notably BP's purchase of Sohio).

During the 1980s, British investment rose from $9.8bn to $122.8bn, compared with an increase from $23.7bn to $58.8bn in US holdings in Britain.

Total British investments are roughly double the size of even the rapidly growing Japanese holdings which have caused so much comment and criticism within the US.

Japanese investments, more than a third in wholesale trades such as motor distributors, rose during the 1980s from a value of $3.5bn to $66.1bn. By contrast, US investment in Japan increased from $6.2bn to $17bn.

The other large direct investors in the US, ranked by size of investments at the end of 1989, have been the Netherlands with $55.7bn, Canada with $29.7bn and West Germany with $26.9bn.

Investment by the French jumped by a half last year to a total of $17.1bn.

On a regional basis, the south-east and the south-west of the US have the largest amount of foreign investment, with, in order of states, California, Texas, New York, Alaska and Louisiana. Manufacturing has attracted the largest investment, though foreign ownership of US banking assets rose from 10 to 20 per cent during the decade.

The scale, and in particular the rate of increase, of such investment has led to much debate on Congress about possible restrictions, strongly opposed by the Bush Administration, and suggested increases in reporting requirements aimed specifically at foreign owners.

CONTENTS

Britain's Foreign Secretary invigorated by the challenge

It has been said that Douglas Hurd was born to be Foreign Secretary. And every week in the position only seems to rein force that im pression. Page 8

MARKETS

STERLING
New York close
$1.611 (1.610)
London:
$1.6095 (1.6005)
DM2.7575 (2.7475)
FFr9.315 (9.29)
SFr2.455 (2.445)
Y245 (244)
£ index 86.4 (86.2)

GOLD
New York: Comex Apr
$399.5 (400.7)
London:
$399.5 (396.25)

N SEA OIL (Argus)
Brent 15-day Apr
$18.60 (18.65)

Chief price changes yesterday: Page 17

DOLLAR
New York close
DM1.7098 (1.712)
FFr5.7785 (5.7865)
SFr1.523 (1.522)
Y152.08 (152.15)
London:
DM1.7135 (1.716)
FFr5.7875 (5.805)
SFr1.526 (1.5275)
Y152.2 (152.5)
$ index 68.5 (68.8)
Tokyo close: Y152.20

US lunchtime rates
Fed Funds $8\frac{3}{16}$%
3-mo Treasury Bills: yield: 8.2%
Long Bond: $97\frac{15}{32}$
yield: 8.69%

STOCK INDICES
FT-SE 100:
2,228.1 (+1.6)
FT Ordinary:
1,758.6 (+3)
FT-A All-Share:
1,107.98 (+0.2%)
New York close
DJ Ind. Av.
2,687.84 (+13.29)
S&P Comp
353.37 (−0.63)
Tokyo: Nikkei
32,352.13 (−268.44)

LONDON MONEY
3-month Interbank:
closing $15\frac{1}{4}$% ($15\frac{3}{8}$)
Liffe long gilt future:

Ryzhkov accused over tank export scandal

By Quentin Peel in Moscow

MR Nikolai Ryzhkov, the Soviet Prime Minister, threatened to resign along with his government yesterday, after a simmering scandal over the illicit export of tanks and precious metals exploded in the Congress of People's Deputies.

In an extraordinary emotional outburst, he also rounded on Mr Mikhail Gorbachev, the Soviet president, demanding to know why he had allowed allegations linking him to the scandal to be spelt out before the entire assembly.

In the end, however, he received a thunderous ovation from the assembly, summoned in emergency session to create a new executive state presidency, after he denied any wrongdoing in the government in connection with the affair.

Mr Ryzhkov, who is as popular as Mr Gorbachev, although a far less articulate advocate of reform, was summoned to the stand to answer a charge that he had signed the approval for a state-backed co-operative venture, called ANT, to get involved directly in foreign trade operations.

The venture was apparently involved in multi-million rouble deals to export surplus Soviet raw materials, including precious metals, in exchange for urgently needed consumer goods for the Soviet market.

Then it was caught earlier this year attempting to export a dozen Soviet T-72 tanks through the port of Novorossisk, without any documentation, in what was triumphantly exposed as a criminal venture. The crime was blamed by opponents of Soviet economic reform as an example of the penalties of allowing co-operative ventures too much freedom.

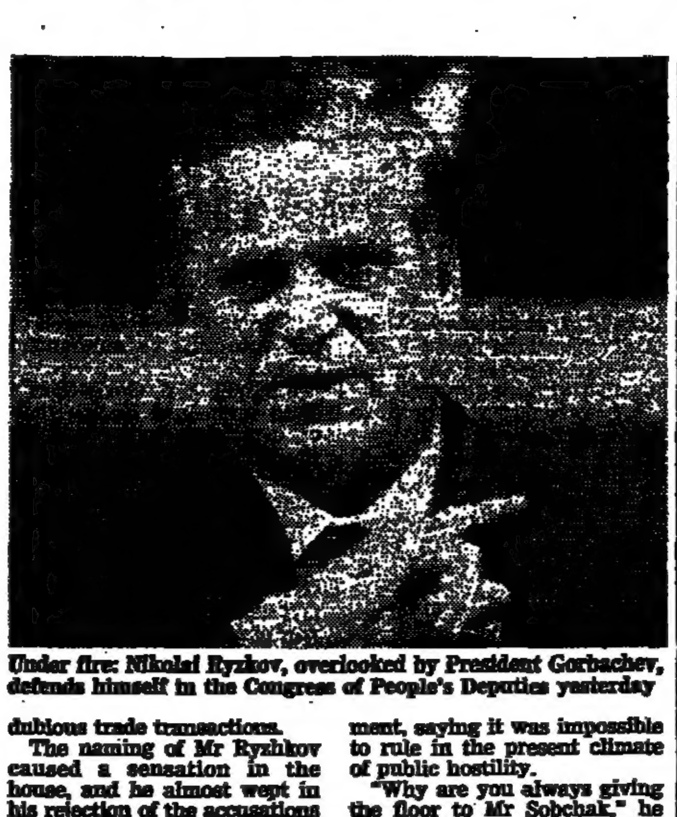
Mr Ryzhkov himself announced that the affair was a major scandal, and publicly censured a string of deputy government ministers for apparently sanctioning illicit export ventures. However in recent days it has become increasingly apparent that ANT was no ordinary co-operative, but actually an entirely government-backed venture.

Yesterday the whole affair exploded once again when Mr Anatoly Sobchak, a leading people's deputy from Leningrad, and a lawyer, made a statement to the Congress to defend himself against accusations by Party conservatives that he was receiving finance from co-operative ventures. He turned from defence to attack by revealing new details of the ANT affair, announcing that Mr Ryzhkov had personally signed the export licence, along with other leading members of the Soviet government, including Mr Aleksander Vlasov, the prime minister of the Russian federation.

He said that the whole operation was headed by a man with intimate links to the KGB, and that the documents revealed that the KGB was empowered to protect the venture's "economic security".

A string of other controversial, if not illegal, ANT exports have been exposed: they included 20 tonnes of nickel and 70 tonnes of copper at Murmansk, described as scrap metal in the export documents; and 50 tonnes of magnesium ingots in the port of Nakhodka. Subsequently, the press has published details of other illicit exports of high-value metals and minerals identified as scrap.

Earlier another radical deputy, Mr Nikolai Trafkin, supporting the candidacy of Mr Gorbachev for the presidency, demanded that he take action against the "gangsterism of Ministers" who had been involved in exporting tanks, and Communist Party members now deeply involved in dubious trade transactions.



Under fire: Nikolai Ryzkov, overlooked by President Gorbachev, defends himself in the Congress of People's Deputies yesterday

The naming of Mr Ryzhkov caused a sensation in the house, and he almost wept in his rejection of the accusations - although not denying that he had signed the export licence. He then rounded on all the critics of the Soviet government, saying it was impossible to rule in the present climate of public hostility.

"Why are you always giving the floor to Mr Sobchak," he demanded of Mr Gorbachev himself, implying that the Soviet leader might have been behind the accusations.

Fabius favourite to control Socialists

By Ian Davidson in Paris

BALDING, baby-faced and only 43 years old, Mr Laurent Fabius still looks like a narrow favourite to seize control of the French Socialist Party at its four-day congress which opens in Rennes today.

But the contest is far from settled and Mr Pierre Mauroy, the veteran socialist who holds the post of First Secretary of the party, may well succeed in warding off the Fabius challenge by the time the congress closes.

At stake at the congress is Mr Mauroy's party post. But the longer-term implication of the contest is that it is perceived to be an advance indicator of the party's selection of its candidate for the Presidential election in five years.

In reality, there is nothing final about the contest at Rennes, since congresses are held every two years. When Mr Lionel Jospin stepped down from the job at the last occasion, in 1988, after seven years' service during President Mitterrand's first term, Mr Fabius was generally expected to take his place.

Mr Mauroy's victory then was a surprise to many and a serious disappointment to Mr Fabius' ambitions.

By the same token a Fabius victory at this congress would not be final, though a second defeat would be a significant blow to his prospects.

Apart from Mr Fabius, three leading party figures are generally considered to be "presidentiable." In the traditional mainstream of the party is Mr Lionel Jospin, 52, former First Secretary and now Minister of Education, who is allied at the congress with Mr Mauroy. Then there is Mr Michel Rocard, 59, the Prime Minister, who has long headed a minority clan on the social-democratic flank of the party. As a dark horse, there is also Mr Jacques Delors, former French Finance Minister and now President of the European Commission, who at this congress is playing a discreet supporting role behind the Mauroy-Jospin alliance.

Preparatory voting at the grassroots party federations has put Mr Fabius and his clan fractionally ahead of the Mauroy-Jospin team, but with less than 30 per cent each, their totals are far short of any guarantee of victory.

Mr Rocard's clan trails with less than 25 per cent, which has disappointed his friends, though it would clearly give him substantial potential bargaining power in the event of a carve-up.

In the perspective of the next Presidential election, Mr Rocard has two large assets: he enjoys the public prominence of power and has remained consistently popular with French public opinion after nearly two years as Prime Minister. His disadvantage in party terms is that he has never been a mainstream traditional socialist and is therefore regarded by suspicion by old-style socialists.

Mr Jospin can claim the party authenticity of being a traditional Mitterrandist, while Mr Delors has achieved the charisma of an enormously successful role in the development of the European Community.

But Mr Fabius' advantage is that he is, or is believed to be, the chosen dauphin of President Mitterrand. Whether this particular asset, allied with his youth and his personal wealth, will give him the victory, may be an indicator of whether the Socialist Party is passing into the post-Mitterrand era.

Fiat closes plants as transport strike bites

FIAT, the car and commercial vehicle manufacturer which is Italy's largest industrial concern, said yesterday it was suspending production at some of its factories because a strike by truck drivers had cut supplies of parts and raw materials, Reuter reports from Turin.

"Between tonight and Friday, about 56,000 workers will be laid off at various plants," a Fiat spokesman said. Fiat said its Cassino plant would close on last night and nine other factories would suspend output from today.

About 70 per cent of Italian freight travels by road.

More than 50,000 drivers began a week-long strike on Sunday to persuade the government to cut the price of fuel and road tax and make other concessions to reduce road haulage costs.

Police escorts are to be provided to truckers who have defied the strike after 22 cases of violence against strike-breakers were reported.

Petrol supplies have also been badly hit by the dispute. Oil industry sources said 90 per cent of petrol stations in some parts of Italy had run dry by last night and motorists were queueing for up to an hour and a half outside those still open.

Counting the cost of German unification

Uniting the two Germanys could mean inflation in the West and unemployment in the East, argue Robert Z Lawrence and Warwick J McKibbin

THE discussions about the future of East Germany are almost uniformly optimistic about its long run growth potential. Most observers believe that by combining Western market methods and capital with the Teutonic industriousness of East German labour, East Germany will inevitably converge to West German productivity levels.

But there is nothing inevitable about the result. Indeed, unless they are complemented by other policies, the currency reforms under discussion could help keep East Germany an economic backwater.

The West German economy is noted for its inflexible wage structure. Since West German wages are determined through centralised bargaining, they cannot adjust to reflect local conditions. This has kept regional unemployment rates high throughout the 1980s. It would be a tragedy if German unification involved, not the export of markets to the East, but the export of German rigidities to the East.

The immediate concern facing East and West Germany is how to stem the large flow of immigrants from East to West.

The immediate concern facing both East and West Germany is how to stem the large flow of immigrants from East to West. Simply by moving to West Germany, East Germans can dramatically improve their living standards, either by finding jobs at West German wage rates or by receiving West German unemployment and other social benefits. Since the Berlin Wall came down, they have been streaming across the borders at the rate of several thousand a day. If the migration continues, East Germany will be seriously depopulated and West Germany could exceed the limits of its absorptive capacity.

Will the current situation resolve itself without policy actions by West Germany? Without any impediments to wage adjustment in the East or West, migration would lower wages in the West and raise them in the East. This would help stem the flow of migrants. Also, property and other asset values would adjust to slow the migration.

The key to reducing the incentive to migrate, without imposing physical restrictions, is to raise real incomes in the East. As part of the solution, Chancellor Helmut Kohl of West Germany has been advocating a rapid move toward making the East German Mark freely convertible.

Some have proposed allowing East Germans to exchange their savings into West German currency at a highly favourable rate of 1:1. This would clearly be popular with East Germans. But this proposal alone would not reduce the incentive to migrate. Indeed, by giving East Germans the means to buy property in the West, it could actually increase migration. If this rate applied to all transactions, it would raise unemployment and stifle investment in the East because it would make East German labour extremely expensive and its industry uncompetitive.

The Germans therefore, face an unpleasant trade-off. On one hand, to reduce migration to West Germany, the East Mark should be set at a relatively strong rate. Given average incomes of approximately DM37,000 in West Germany and East Mark 23,000 in East Germany, even with a rate of 1-to-1, East German wages would fall below those in West Germany. Moreover, given the unemployment this rate would cause, East German wages would be subject to downward pressures. On the other hand, to encourage investment in East Germany, the East German mark should be relatively weak — much closer to the seven or 10 to one rate found on the black market.

Since policy has two goals, the solution to this dilemma must be a two part programme. A relatively strong East Mark to reduce migration combined with a wage subsidy to encourage foreign and domestic investment in East Germany. Providing such a subsidy would not be cheap. In the first few years it would have to be relatively large, although over time, as East German productivity improved it could be reduced.

How should these subsidies be financed? One mechanism is to raise funds through selling the assets of the East German government to the highest bidder through auctions of property and state-operated companies. Another, would be big fiscal transfer from West to East Germany. It means serious pressure on the German budget. The West Germans had been promised a tax cut this year. Instead, a tax rise to help their Eastern brethren seems inevitable. In this way, the German government could bring about the adjustment of lower wages in the West and higher wages in the East that a market with flexible wages would have brought automatically.

There are, of course, numerous examples of regions which have remained permanently depressed despite extensive economic integration with more prosperous neighbours. Indeed, integration can sometimes stifle growth. Consider Puerto Rico. The residents of Puerto Rico have been US citizens since 1917. They are free to migrate to the US. Those staying at home receive welfare and unemployment benefits at US levels and since 1977 must be paid at least the US minimum wage rate.

Unfortunately, therefore, US benefit levels set a floor under Puerto Rican wages. Companies find these wages too high to justify employing the low productivity labour force.

The West Germans had been promised a tax cut this year. Instead, a tax rise to help their Eastern brethren seems inevitable.

Workers find the wages too low to justify foregoing welfare benefits. The results are: an unemployment rate which has persistently remained above 15 per cent; 60 per cent of Puerto Rican residents receiving government assistance; and little tendency for income levels in Puerto Rico to converge to those in the US. In 1970 incomes in Puerto Rico were 34 per cent of those in the US, in 1987 they were 31 per cent. Perhaps skill levels in East Germany are closer to those in West Germany than those in Puerto Rico are to those in the US, but this experience is testimony to the dramatic problems that result when little consideration is given to economic incentives when integrating two economies with a common currency.

In sum, it will be tempting for the German government to stop with the easy part of the programme — unifying the currency at a relatively strong rate for East Germany. But without tax hikes in the West and wage subsidies in the East the result will be inflation in the West and unemployment in the East.

Robert Z Lawrence is a senior fellow of the Brookings Institution, Warwick J McKibbin is a visiting scholar

UK Government wants acquisitions in Europe based on takeover panel style

By Guy de Jonquieres and Robert Rice

THE BRITISH Government is pushing hard in Brussels for Europe to adopt a common policy for the control of takeovers based firmly on the UK model, Mr John Redwood, Secretary of State for Corporate Affairs, said yesterday.

He told the Financial Times Conference on Competition, Mergers, Acquisitions and Alliances in Europe, that the British Government did not want to see the great strength and flexibility of the takeover panel system disappear as a result of the proposed European Takeover Directive.

In 1989 almost three-quarters of all bids in Europe involved the UK, which reflected both the UK's open and dynamic market for corporate control and the longer experience of takeover regulation it has, compared with other member states.

There was a lot to be said for a common regime in Europe, but it would need common principles and standards. The principles should include the UK's best practices. There should be avoidance of any wide-scale resort to litigation during bids; a fair offer to all people involved through imposition of trigger points at which bidder companies would have to bid for all the equity of the target company; transparency, so that shareholders would know what was on offer; and a strict timetable for bids.

The directive must allow a reasonable time for target companies to put their defence and a limited time for bidders to change or up their offer. Shareholders should give their response to a bid within a reasonable time. Bidders should not be allowed to continue to disrupt the management of the target company indefinitely.

He hoped Britain's views on the takeover directive would be adopted but he could not guarantee it, as the directive will be adopted by a qualified majority.

FT CONFERENCE

COMPETITION, MERGERS, ACQUISITIONS AND ALLIANCES IN EUROPE

Strategic alliances between companies were rapidly gaining favour in Europe and would play an increasingly important part in the restructuring of European industry, according to Mr Umberto Bussolati Dell'Orto, vice-president of corporate development at Olivetti.

Alliances such as cross-holdings and joint ventures were the most effective way for companies to improve their competitive position while acquisitions were most suitable when the objective was to increase growth and financial returns.

However, while the spread of strategic alliances would accelerate the integration of European industry, they also posed a challenge to European management, which needed to adapt its traditional approach to ensure their success.

Despite outward appearances, there was a good deal of merger and acquisition activity in West Germany, according to Dr Lutz Raettig, executive vice-president of Commerzbank. However, most of it was occurring within the country, not across borders, and mainly involved smaller companies.

He said that West Germany was open to foreign acquirers, but most prospective target companies were privately owned, not publicly quoted. Deals were normally put together by companies' legal and tax advisers.

While many West German companies were paying close attention to prospects in East Germany, they remained keenly interested in expanding in Western Europe, the US and Asia and had ample resources to finance investments there.

Mr Lawrence Maisel, a partner with Salans, Hertzfeld and Heilbrown, the Paris law firm, said mergers and acquisitions had become increasingly common in France, despite apparent disapproval expressed by President Mitterrand.

There was much evidence of increased profit orientation and entrepreneurial drive in France. The Government had deregulated financial markets, changed tax laws and was now taking a more relaxed attitude to takeovers from abroad, though some legal obstacles to acquisitions remained.

The main danger was a change in the political climate which would produce a backlash against a free market approach. However, Mr Maisel doubted that the trend towards economic liberalisation in France would be reversed.

European Community companies made almost 60 per cent of all company acquisitions worldwide during 1989 and were involved in 49.9 per cent of all worldwide company sales, Dr Peter Sauer, managing partner of KPMG Peat Marwick Treuhand, said. This compared with 18 per cent for company acquisitions and 36 per cent for company sales made by North American companies and 24 per cent and 14 per cent respectively for companies from the rest of the world, including non-EC European companies.

The figures reflect the increasing dominance of EC companies in a relatively flat market for global mergers and acquisitions during 1989. This pattern looks set to continue up to 1992 and beyond Dr Sauer said.

The value of EC purchases of other EC country companies during 1989 was $24bn (£15bn), more than double 1988 levels. Germany and France were particularly active in buying into Europe during 1989, although there was very little increase in the level of UK investment into Europe. This was significant, he said, as the value of UK purchases in North America fell by $10.8bn last year. The money UK companies did not invest in the US was not redirected to Europe.

There are a large number of European companies that would welcome UK investment diverted from North America to the EC, he said.

Commission considering TV complaint

THE EUROPEAN Commission is still considering a complaint lodged under EC competition rules by Screensport, the satellite television channel run by WHSTV, the W.H. Smith subsidiary, against Eurosport, Mr Rupert Murdoch's satellite television service.

The Commission has issued a statement denying suggestions in some quarters that a decision had been taken on the issue.

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EUROPEAN NEWS

Hopes rise for earlier elimination of CFCs

By William Dullforce in Geneva

PROSPECTS of more stringent controls on the chemicals *which are destroying the* earth's ozone layer have increased after two weeks of discussion in Geneva, according to Dr Mostafa Tolba, the director of the United Nations Environment Programme (UNEP). The layer protects against the ultra-violet rays which cause skin cancer and eye cataracts.

Countries which have signed the 1987 Montreal Protocol are expected to agree at a meeting in London in June to eliminate completely by the end of the century production of listed chlorofluorocarbons (CFCs), compounds used in aerosol sprays and in refrigerators which release chemicals that eat away the ozone. Under the original protocol they were committed to reducing the CFCs by half by the year 2000.

In a working group meeting here the signatories have come close to agreeing to include 10 more CFCs in the list and to phase out by 2000 three brominated fluorcarbons (halons), except for those needed for essential purposes. Halons are mainly used in fire extinguishers.

They have also been discussing the possibility of eliminating methyl chloroform and carbon tetrachloride, two so far unregulated chemicals used as solvents in the electronics industry, which the US National Resources Defence Council recently estimated accounted for one-third of the ozone-destroying chlorine in the stratosphere.

Moreover, in a potentially important advance, the working group has moved nearer to agreeing a financial package and a transfer of technology that would allow developing countries to switch to the production of harmless substitute chemicals, Dr Tolba said. Agreement on these issues would open the way for China, India and Brazil to sign the protocol.

Preliminary estimates indicate that the industrialised countries would have to provide between \$100m and \$120m in capital investments and \$18m-\$20m in technical assistance over the three-year period 1991-93. Another \$100m-\$120m would be needed, if the three big developing countries joined the programme.

Talks have also focused on the possibility of setting up an international organisation to buy patents for new, ozone-friendly substitute chemicals and make them available to developing countries.

Work has started on drafting a new treaty aimed at protecting the genetic resources in plant and animal life. This "protection of biological diversity" accord would have important implications for medicine and the development of food products, Dr Tolba said.

Mostafa Tolba: close to deal for developing countries

Delors urges EC to reach political union

By Lucy Kellaway in Brussels

MR JACQUES DELORS, President of the European Commission, yesterday made his strongest plea yet for a political union among member states, arguing that the existing channels for co-operation were outdated and ineffective.

"European political co-operation cannot lead to the consensus we need. It allows us to react after the event, rather than put together strong conclusions beforehand that will allow action to be taken."

A mechanism through which to act, especially in security matters, was urgently needed.

Mr Delors was addressing the European Parliament during a debate on the reform of Community institutions, in which he gave his support to a parliamentary report calling for wide new powers for MEPs.

Mr Delors said that the whole question of institutional reform should be examined with a clear political goal in mind. Reaching that goal, he said, might well involve drawing up two or three new treaties.

He said that member states must decide whether they wished to take a step-by-step approach to reform, or whether they wanted to map out the route at the outset. However, he made his own preference quite clear: "I would like to see the 12 reaffirm their wish for European union this year so that the context is clear," he said.

He reiterated his view that the inter-governmental conference at the end of the year should address both institutional reform and monetary union – a view strongly shared by the European Parliament.

However, Mr Delors' views on timing are controversial among fellow-Commissioners, some of whom argue that to tackle the two issues together would reduce the chances of achieving anything on either issue.

The warm support given by Mr Delors yesterday to Parliament's demands for increased powers was in marked contrast to disaffection between the two bodies over the present legislative timetable.

At a bad-tempered meeting on Tuesday Mr Delors refused demands that the timetable be adapted to give greater priority to social affairs.

The Parliament is angry that the Commission has not sufficiently heeded its views, whereas Mr Delors feels that it is not within the Parliament's powers at present to set the legislative programme.

Arms negotiators optimistic despite turmoil in Europe

By Judy Dempsey in Vienna

NATO and Warsaw Pact diplomats today resume in Vienna a sixth round of talks on reducing conventional forces in Europe against a background of increasing uncertainty about how German unification will affect the talks and a CFE treaty.

Yet despite the rapid changes in eastern Europe which undermine Europe's present security situation, arms negotiators still believe that a CFE treaty is possible this year and that it can be implemented alongside a united Germany.

This optimism stems from the agreement reached in several areas over the past year in Vienna:

- The 23 nations in the talks – 16 Nato and seven Warsaw Pact – have agreed that the cuts should involve five categories of weapons.

These include battle tanks, armoured combat vehicles, artillery, combat helicopters and combat aircraft. This marks a shift in Nato's stance, since in the early stages of the talks, it had excluded the last two categories and had insisted that only main battle tanks (as opposed to lighter tanks) be reduced.

- The two sides have agreed definitions for artillery and are close to agreement on armoured combat vehicles, battle tanks and combat helicopters. They have also agreed ceilings for the last two.
- The issue of verification, complemented by a complex system of exchanging information, is moving ahead too. At the last round, Nato put forward a draft "inspection protocol" to which the Warsaw Pact has yet to respond. This includes monitoring the movement of equipment in and out of storage.
- There is also progress on the question of how Europe will be zoned for the reductions: which ceilings and sub-ceilings should be distributed *among "blocks" of countries* from the Atlantic to the Urals; and how to deal with equipment held outside active units in monitored storage.

But despite substantial movement in these areas, three outstanding problems have to be tackled: aircraft, personnel and the effect that German unification, coupled with the disintegration of the Warsaw Pact will have on the implementation of the CFE treaty.

For months, the Soviet Union insisted that its tactical aircraft and trainers be excluded from the CFE talks. Nato objected partly because Soviet trainers could double up as tactical aircraft. And besides, the exclusion of tactical aircraft would not enhance stability through reductions which is the raison d'etre of the CFE talks.

But in January, Nato accepted the Pact ceiling of 4,700 combat aircraft plus 500 air-defence interceptors and also agreed to exclude primary trainers.

The Soviet Union accepted the ceiling for combat aircraft but proposed an additional entitlement of between 1,500-1,600 combat-capable trainers plus 1,500 air-defence interceptors. But it insisted that all its land-based naval aircraft be excluded from any cuts. Essentially this would leave the Soviet Union with around 7,700 aircraft and Nato with 4,700 – plus its 500 air-defence aircraft, a disparity which Nato appears unwilling to accept.

But as a senior Nato diplomat pointed out, "at least the Soviet Union is finally negotiating all its non-strategic (but not land-based naval) aircraft, a considerable advance from a year ago."

There is also the problem of personnel.

At the meeting of foreign ministers in Ottawa last month, the US and the Soviet Union agreed that each side would station no more than 195,000 ground and air personnel in the central zone of Europe which would also constitute the ceiling on Soviet troops in Europe.

The US also agreed that it would station no more than 30,000 troops outside the central zone.

But some Warsaw Pact diplomats earlier this week indicated that they still want other Nato forces and national forces to be included in CFE reductions.

Essentially what they fear is the size of the Bundeswehr (the West German 450,000-strong army) which is not at present part of the CFE calculations. These anxieties are compounded by the prospect of a united Germany.

The Soviet Union argues that if a united Germany were part of Nato, it would create an overwhelming superiority for Nato. However, Hungarian arms negotiators hold a different view: "We see the danger of a crisis situation which can result in a armed conflict, but the participants of it would not be divided along the lines of the traditional Nato-Warsaw Pact division," explained Mr Istvan Gymarti, a member of the Hungarian delegation. "A possible membership of Germany in Nato must be examined against this background...(since) it would contribute to the stability of the continent..."

What they fear is the 450,000-strong West German army...These anxieties are compounded by the prospect of a united... Germany.

The Hungarians, among other delegations, see a scenario whereby the Soviet Union would maintain for a transitional period, its presence on the territory of present-day East Germany while Nato forces, based on agreement, would remain on West German territory.

Hungary argues that any CFE treaty must "radically strengthen the obligations and rights of sovereign states vis-a-vis those of the 'groups' (a term often used in Vienna instead of the two military alliances)."

What Hungary has in mind is a CFE treaty which should provide for knowledge of every state's national forces before and after CFE reductions; that these national levels will not result in breaching the overall regional or sub-ceilings of their respective groups; and that states, through a notification system, will retain the sovereign right to fill, decrease or re-increase its forces or surrender this possibility to another state belonging to the group.

At the moment, the draft treaty refers only to regional and group ceilings in the context of the two alliances.

It is too early to say if both sides will accept the Hungarian proposals. But it is becoming clear that if and when a CFE treaty is signed and *sealed, European security is* likely to move closer towards the broader arena of the 35-member Conference on Security and Co-operation in Europe.

EC company reaction to 1992 'encouraging'

By Lucy Kellaway in Brussels

EUROPEAN companies are planning more investment, more mergers and more joint ventures to prepare themselves for the fiercer competition of the single market, according to the latest findings of the European Commission.

In its annual report on progress towards 1992, the Commission finds an "encouraging" dynamism among companies, which are preparing for tougher competition in home markets and greater opportunities in other Community countries.

The positive effects of the single market so far confirm the ambitious forecasts made in the Cechinni report in 1988, the report says. Since 1984 industrial production in the EC has risen by 20 per cent and 8.5m jobs have been created.

Moreover investment in the community is tending to reduce the gaps between the more- and less-developed countries, with investment in Spain and Portgual rising by 10 per cent last year, compared with an average Community increase of 7 per cent.

Meanwhile, the EC companies are making an increasingly large number of takeovers, with a greater proportion of them overseas. The top EC companies made 500 takeovers in 1988/89, more than twice the level of activity two years earlier. The total quantity of cross-border takeovers by EC companies rose last year to 1,300, worth more than Ecu 45bn (£33.4bn). According to the report, EC companies are investing more in third countries than third countries are in the Community.

The commission repeated its warning that time is running out to pass remaining legislation on the single market and tells ministers to hurry up with the remaining 40 per cent of the measures to be passed.

However, it notes some improvement in the lamentable record of member states in transposing directives into their national law. Whereas only 67 per cent of laws had been transposed at the end of last year, the percentage had increased to 75 per cent by the end of February.

S African budget targets less privileged

By Patti Waldmeir in Cape Town

WHEN Mr Barend du Plessis, the South African Finance Minister, rose to present his 1990-91 budget proposals to parliament yesterday, he promised South Africans an entirely new economic way of life to match the new-style politics of Mr F.W. de Klerk, the reformist President.

Adopting the rhetoric of the caring state – not the sort of language which has come naturally to Mr du Plessis in previous budget speeches – the minister promised that the budget would aim to "help the less privileged by making the greatest possible provision on the expenditure side of the account".

To that end, defence spending was cut sharply in real terms, generating a saving of over R1bn (£162m), three quarters of which was reallocated to black education – spending on which grew by 17.6 per cent, twice the rate of increase for white education.

An unidentified gunman shot dead a senior white police officer yesterday, Reuter reports from Johannesburg. Police launched a massive manhunt in riot-torn Natal province after the killing of Major Deon Terblanche, the first murder of a senior white policeman in years.

But black social services were not the only beneficiary: spending on the police force rose by 16 per cent, reflecting Pretoria's contention that South Africa's black townships are underpoliced.

On its own, the budget goes only a small way towards meeting Government's stated priority of tackling "poverty and the backlogs in housing, education, training, literacy, basic health needs and other factors impeding... the raising of living standards".

Instead, Pretoria has taken R2bn off its balance sheet to create a fund for capital projects aimed at blacks – money which is likely to be used to create both infrastructure and jobs in the black community.

Given the current state of nervousness among whites, Mr du Plessis was careful to ensure that the budget did not seem to favour blacks unduly. He announced that increases in income tax thresholds would save individual taxpayers – most of them white – some R4bn over the year.

Economists said later they believed these savings might prove to be illusory, however. "We think these tax concessions are not really concessions," said Mr Nico Cypionka, Standard Bank chief economist. He noted that the Government appeared to be underestimating the level of salary increases – which would push taxpayers into a higher tax bracket and yield more tax revenue – and that increased taxes on fringe benefits might also have a big impact.

Mr Edward Osborn, Nedbank chief economist, welcomed the fact that the top marginal rate of individual taxation had been reduced from 45 per cent to 44 per cent, in line with Pretoria's stated aim of cutting the rate to 40 per cent over five years.

Economists said they believed the budget would be largely neutral in terms of economic growth, arguing that a large part of the R4bn in tax savings might not materialise, and the R2bn social fund would not be spent in one year.

They welcomed the Government's adherence to strict fiscal discipline in the budget, which projects an overall spending increase of 11.9 per cent for 1990-91.

They noted several taxation changes affecting mining companies, including a move to allow mining concerns to write off 25 per cent of the cost of developing a new mine against profits from existing mining operations.

Taiwan's ageing old guard makes last ditch stand

A rift in the Kuomintang damages democratic prospects ahead of March polls, says Peter Wickenden

DEMANDS that the Kuomintang Government in Taiwan speed up democratisation are pouring forth from opposition and ruling party members, cabinet ministers included, in an unprecedented wave of outspokenness before presidential elections on March 21.

In the wake of a riot outside parliament in Taipei on February 20 by opposition Democratic Progressive Party (DPP) supporters calling for faster reforms, public sympathy for the hundreds of decrepit mainland Chinese who dominate the Government diminished sharply. It has all but evaporated since a group of old guard began drumming up support for a return to the Chiang dynasty that ruled Taiwan with an iron grip and suppressed Taiwan's own language and culture for 40 years.

The overwhelming majority of parliamentary seats are held by hardline KMT members who were elected in mainland China in 1948 and who followed Chiang Kai-shek to Taiwan.

To justify its claim to be a legitimate government of the whole of China the KMT has maintained the mainlanders in office for the last four decades. They have never faced re-election, but a series of supplementary elections in recent years has been held in Taiwan to fill seats vacated by death or retirement.

More than 50 people were hurt in February's rioting, which the DPP attributed to public frustration with the pace of parliamentary reform and a growing suspicion that the KMT and President Lee Teng Hui (who is also KMT chairman) were insincere in their commitment to democratisation.

Criticism has rained down upon the president for his choice of running mate in the election, Mr Li Yuan Zu. Mr Li, currently the President's chief secretary, is associated with the security clampdown on opposition movements in the 1970s which led to the jailing of a number of dissidents.

The KMT is now split between supporters of the Lee and Li ticket, and those who backed Lee's long time rival, Lin Yang Kang, who is head of the judiciary. Lin, a 63-year-old native Taiwanese, had planned to run for president with General Chiang Wego, son of Chiang Kai-shek, as his vice-presidential running mate.

Thus for the first time ever KMT members have defied the party's central committee by supporting alternative candidates. After four weeks of party infighting and frantic efforts to dissuade them, the two challengers bowed out of the race over the weekend. But they may yet be drafted into the two top posts against their will.

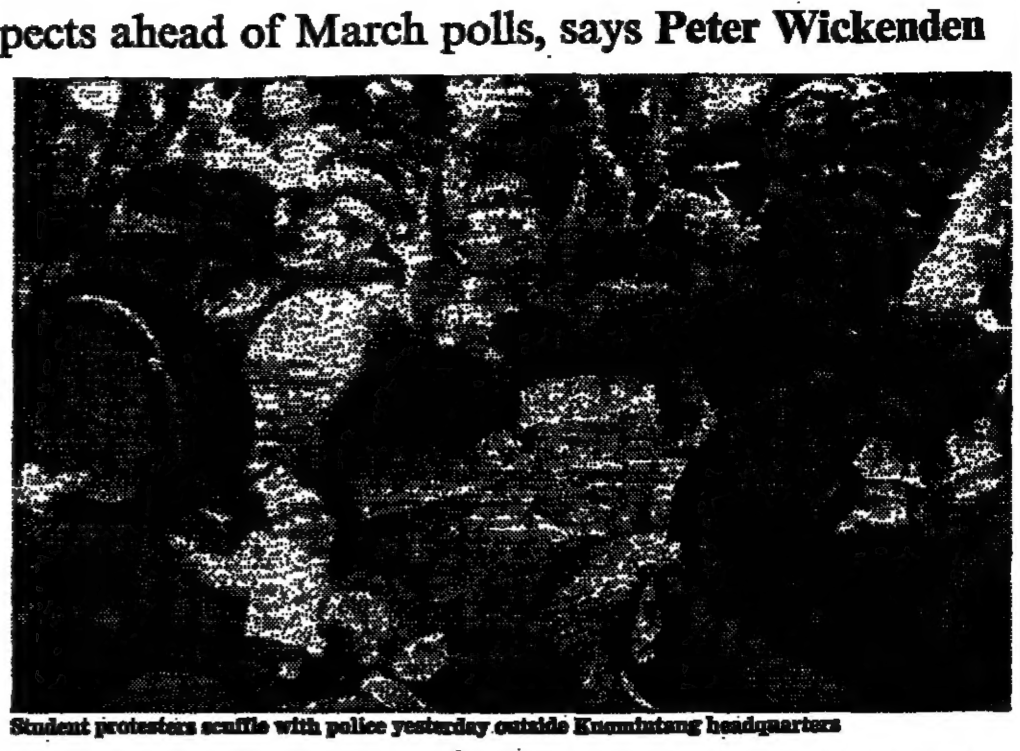
The KMT faction that supports Mr Lin and Mr Chiang hopes that the two will keep alive the myth that the Nationalists will one day recover control of mainland China from the Communists. They complain that Lee Teng Hui is paying lip service to the Nationalists' dream while Taiwan aggressively pursues a new independent foreign policy.

The factional fighting in the KMT has the opposition worried that the slow pace of democratisation may now grind to a halt. The KMT's popularity dropped to an all-time low according to a recent poll conducted by the island's biggest newspaper and the stock market is seesawing on rumours about the severity of the party rift.

Legislators from both parties openly question the KMT's commitment to democracy because the KMT itself remains fundamentally undemocratic even after several years of internal reform. "It is not a problem of insincerity. It's the innate character, the physical condition of the KMT. It is a very old and inflexible party," said DPP legislator Lin Cheng Chieh.

The KMT's lack of internal democracy has been demonstrated twice in the last year. Before parliamentary elections last December, the KMT held primaries for the first time in its 78 year history. But some of those who won in the primaries were forbidden from running for seats and replaced with preferred party cadre who subsequently lost. The DPP made major gains in the elections which saw 71 per cent of votes go to the KMT, down from 82 per cent in 1986.

A more recent example was the KMT's central committee's selection of Lee Teng Hui and Li Yuan Zu as its standard bearers. The president's unpopular running mate was endorsed by a show of hands, although a powerful group, including the Premier, Lee Huan, favoured a secret ballot, which was reportedly quashed on the orders of the President himself.



Student protesters scuffle with police yesterday outside Kuomintang headquarters

Moreover the KMT has failed to live up to repeated promises to rejuvenate parliament with more locally elected members. In September the KMT declared that it would pressure at least 70 bedridden elders into retiring before the December election. But only one agreed, although a few more have died.

There are now 281 legislators, of whom 151 are mainlanders, 29 are representatives of overseas Chinese communities appointed by the KMT and the other 101 (35 per cent) are elected in Taiwan. In the December elections 72 of the 101 seats went to the KMT, 21 to the DPP and eight to independents.

In the National Assembly, which meets once every six years to elect the President, the dominance of the old guard, which has an average age of 80, is even more overwhelming. Of 715 members only 84 were elected in Taiwan. An accurate total is hard to come by, because on average at least one dies every week.

Three groups of Taiwan-elected legislators from both parties have called for a deadline before which all the old mainlanders must retire. But a sense of desperation now pervades the legislators as the old guard in the National Assembly try again to increase their power and their pay in a move that legislators from both parties have described as political blackmail.

Thais likely to face higher rates of interest

By Roger Matthews in Bangkok

HIGHER interest rates in Thailand now appear inevitable in the wake of a further increase in the rate of inflation and indications that the Government may have to concede a significant rise in minimum wage rates.

Mr Pramual Sabhavasu, the Minister of Finance, resisted appeals last year for a rise in interest rates to combat inflation, but following last week's appointment of a new central bank governor, officials say agreement is close on raising the interest rate ceiling from 15 per cent to 17 per cent.

This has been spurred by figures from the Ministry of Commerce showing that for the first two months of the year inflation was running at an annual rate of 6.1 per cent compared with 5.8 per cent last year.

A further boost to inflation is expected later in the year when oil prices will have to be increased now that the special fund established to cushion Thai consumers against international price variations is finally depleted. Economists fear this could push inflation above 7 per cent, at which point it could become a politically highly sensitive issue.

Negotiations between the Government and the recently more militant unions on demands for a 10 per cent increase in the daily minimum wage rate of 78 baht ($3.0) seem likely to trigger a more general round of higher pay settlements which also will eventually add impetus to the inflationary trend.

Encouraged by their success in blocking government privatisation plans for public utilities, the unions are said to be unlikely to settle for less than 8 per cent.

The central bank is, meanwhile, planning to drain some liquidity from the banking system through a 30m baht issue of bonds with a one-year maturity at an interest rate of just over 9 per cent. The commercial banks are obliged to maintain 16 per cent of their deposits in government or other authorised bonds.

Officials say that the delay in announcing higher lending rates has been caused by the Government's desire to find a formula for cushioning home buyers against the full impact of an additional 2 per cent. The boom in land values in the Bangkok metropolitan area, coupled with large increases in house prices and sharply higher rents, has inevitably led to higher levels of personal borrowing.

Doubts persist, however, among some officials that the Government's action will be enough to cool the economy, or expectations, after three years of double-digit growth.

Peres courts religious parties

By Hugh Carnegy in Jerusalem

A NEWSPAPER photograph of the Israeli Labour Party leader, Mr Shimon Peres, *kippa* on his usually bare head, deep in consultation with a black-robed, ultra-orthodox rabbi yesterday signalled the start in earnest of the struggle between Labour and Likud to take over the Government.

Both Mr Peres and Mr Yitzhak Shamir, the Prime Minister and Likud leader, courted the small religious parties which hold the balance of power in the Knesset.

Support from within their ranks is essential to both men's efforts to form a narrow coalition to replace the major party partnership which collapsed on Tuesday because of differences over US proposals to start Israeli-Palestinian peace talks.

The first real test is set for today when Mr Shamir faces a no-confidence vote in the Knesset. He gained first advantage yesterday when Labour failed to get the vote brought forward to ensure it took place before the Labour ministers who were sacked or resigned on Tuesday were officially out of office. Legally, dismissal or resignation takes effect only after 48 hours.

Labour wanted still to be in office when the Government lost its mandate from parliament because they would remain in place during the ensuing transition period when attempts are made to form a new administration. By getting them out first, Mr Shamir will immediately head a new, albeit fragile, Likud-led government if he wins the confidence vote.

Amid yesterday's intense brinkmanship, it was hard to predict the outcome. Mr Shamir could chose to resign beforehand if he thinks he cannot win. But lose or resign, as incumbent he will remain in charge during the transition period – which could be lengthy – without the encumbrance of Labour. Mr Peres said yesterday that defeating Mr Shamir in the confidence vote would not mean Labour then had a clear path to setting up its own narrow-based government.

Jewish lobby in US critical of Bush Administration

By Peter Riddell

CRITICISM of the Bush Administration by Likud leaders for contributing to the collapse of the Israeli coalition has found a limited echo in the US Jewish community.

Even before the coalition fell, Mr Thomas Dine, executive director of the American Israel Public Affairs Committee, the main pro-Israel lobby group, had accused the Bush Administration of deviating from its "positive" approach to the Middle East. "Unfortunately, the Administration has in the past 10 days made a series of mistakes that, taken together, suggest that something new and different and very unwelcome is going on."

The immediate cause of this concern was remarks by President George Bush naming East Jerusalem as well as the West Bank in relation to US opposition to new Israeli settlements. This was regarded as a new, tougher policy, though the US insists it is a reiteration of the existing approach.

Mr Seymour Reich, chairman of the conference of presidents of major American Jewish organisations, said that "blood pressure is rising" over the Jersualem question. "Recent Administration statements on Jerusalem and other aspects of US Middle East policy have undermined the confidence necessary for Israel to take those risks for peace that the Administration asks."

However, many in the American Jewish community have been critical of Mr Yitzhak Shamir, the Likud Prime Minister, for stalling progress.

The Bush/Baker team has, however, been more critical in public than the Reagan Administraion of some actions of the Israeli Government in relation to the Palestinian uprising and its attitude to the peace talks, while they have stressed their strong basic support for Israel.

● Twenty Egyptian prisoners of the Gulf War left Tehran for freedom yesterday, flying home via Geneva under Red Cross supervision, Reuter reports from Geneva.

The prisoners, dressed in gray prison camp uniforms, walked hesitantly down the ramp of an Iran Air aircraft in Geneva as if unsure they were really being set free.

But they soon broke into smiles, hugged a waiting Egyptian diplomat and praised God. They flew on to Cairo five hours later.

Lebanese Moslem fundamentalist cleric Sheikh Saeed Shaaban, in a brown robe and white turban, walked off the aircraft ahead of the prisoners. An Iranian official said the Sunni cleric, who has closed ties to Tehran, mediated the deal.

The prisoners appeared between 25 and 50 years old. One older man had to be helped down the ramp.

Some Egyptians fought for Iraq against Iran during the eight-year Gulf War, but the International Committee of the Red Cross (ICRC) said it did not know if these 20 had fought or were simply workers who had been captured. Tehran has not allowed the ICRC to visit its non-Iraqi prisoners, and it is unknown how many are left behind.

Mongolian party elects new leader

MONGOLIA'S ruling communist party elected a reformist leader yesterday and relinquished its 68-year-old monopoly on power, paving the way for possible democratic elections, Reuter reports from Ulan Bator.

A key meeting of the party central committee chose as general-secretary Gombojavyn Ochirbat, 61, who spent the last two years in obscurity.

Minutes earlier it accepted the resignation of Zhambyn Batmunkh, the previous leader, and the entire politburo.

"This is the beginning of new change in Mongolia," party spokesman Terbish Zhimbddorj said after the three-day central committee meeting ended late on Wednesday.

The meeting elected a five-man politburo and half the current 150-member central committee offered to resign because of advanced age, the spokesman said.

The Mongolian Peoples Revolutionary Party, in power since 1924, has been under increasing pressure to change from several democratic opposition movements set up in the last three months.

The movements have staged popular rallies through the streets of the capital Ulan Bator calling for a multi-party system to end 69 years of communist dominance in this remote land wedged between China and the Soviet Union.

A government official described the new general-secretary as "reformist and forward looking" and a "kind, theoretical man."

Orchirbat spent the last two years in Czechoslovakia, working as the party's representative on the theoretical journal World Marxist Review.

His previous posts in Mongolia were Chief of Party Ideology, President of the Trade Union, and Deputy Chief of Party Organisation in the central committee.

The other new members of the politburo were named as N. Michigdorg, Ts. Gombosuren, Ts. Oold and L. Tudev.

Batmunkh, Mongolia's top leader since 1984, will retain his non-party post as Mongolia's president.

Seven die as Hizbollah and Amal resume war in West Beirut

By Lara Marlowe in West Beirut

THE Shia Moslem Amal and Hizbollah militias have resumed their two-year war in West Beirut as battles, which had by yesterday killed seven people and wounded 38 others in less than 24 hours, took place in and around the southern slums of the city.

The fighting has broken out at a time of apparent confusion in Hizbollah ranks over the fate of the 17 western hostages in Lebanon, who are believed to be held in the area of the fighting.

President Ali Akbar Hashemi Rafsanjani of Iran has over the past month repeatedly called for the liberation of the westerners held in Lebanon, allegedly by the pro-Iranian Hizbollah or "Party of God."

Sheikh Mohamed Hussein Fadlallah, considered the spiritual leader of Hizbollah, has made similar statements, but Mr Ali Akbar Mohtashemi, the Iranian MP who as Iran's Ambassador to Damascus, helped to establish the Hizbollah in the early 1980s, has publicly opposed the freeing of western hostages.

The Revolutionary Justice Organisation, believed to be a Hizbollah faction, has said it had "no intention" of releasing its two American hostages. The main Hizbollah leaders are reported to have met in Baalbek, Lebanon, at the weekend, presumably to discuss the the hostage situation.

A communiqué issued by the Amal militia after the fighting broke out late on Tuesday called Hizbollah "followers of Iran's Mohtashemi" and accused Hizbollah of provoking the Beirut battles by "firing indiscriminately at the houses of civilians."

Syria has in the past used Amal in its attempts to control Hizbollah. Hizbollah yesterday claimed that Amal had started the fighting by kidnapping a Hizbollah member.

The road to Beirut international airport, which winds through Shia areas, was closed for the first time in four months because of the battles, which were waged with heavy machine guns and rocket-propelled grenades.

Fighting in the Shia Moslem district of Ouzai closed the main coastal highway leading south to Chouf and Sidon yesterday. Just six weeks ago, while on a state visit to Damascus, President Elias Hrawi drew up a "security plan" which was intended to make "an oasis of security" of West Beirut.

Walid Jumblatt and Nabih Berri, both ministers in president Hrawi's government and the leaders of the Druze and Amal militias, said they would withdraw their militiamen from Beirut to assist in restoring law and order in Beirut's Moslem quarters.

The Shia militias paused in their battles only when Syrian armoured personnel carriers drove through their streets. At the same time, Christian soldiers and militiamen prepared to fight one another again in East Beirut.

Having reportedly received a large shipment of artillery shells and ammunition, Christian General Michel Aoun now denies he ever spoke of leaving the presidential palace at Baabda.

Iraqi leader snubs Hurd

By Victor Mallet

IRAQ has rebuffed an offer by Mr Douglas Hurd, the British Foreign Secretary, to visit Baghdad and meet President Saddam Hussein for talks on the fate of Mr Farzad Bazoft, the London-based journalist sentenced to death on spying charges.

The Foreign Office in London said yesterday that Mr Hurd had expressed his willingness to go to Iraq on his way to a meeting of EC and Gulf foreign ministers in Oman but that the Iraqi authorities had said the time was not right for such a visit.

British officials played down the Iraqi rejection.

At a meeting with President Saddam, Mr Hurd would have appealed for the life of Mr Bazoft, 31, an Iranian travelling on British documents at the time of his arrest in Iraq last September.

Mr Hurd would also have asked for the release of the 52-year-old British nurse Mrs Daphne Parish; she was jailed for 15 years for giving Mr Bazoft a lift in her car when he went to investigate an explosion at a military complex.

Cambodian peace prospects revived

By George Graham in Paris

HIGH-LEVEL talks in Paris between the five permanent members of the Security Council of the United Nations have revived hopes of working towards a peace settlement in Cambodia, despite the apparent failure of negotiations between the rival Cambodian factions in Jakarta last month.

The five countries – the US, Soviet Union, China, UK and France – agreed on a framework for elections in Cambodia following an eventual ceasefire. They believe that they have restored some momentum to a peace process that had seemed stalled by disagreements between the government of Mr Hun Sen in Phnom Penh and the resistance coalition, including the Khmer Rouge, which opposes him.

"It was not easy to reach agreement, but after Jakarta, if no agreement had been possible it would have been a serious blow to the peace process," said a Western official.

The five countries have already held two sets of talks since the failure of a full-scale Cambodian peace conference in Paris last summer. They now expect to meet again in New York, if possible before mid-May, and then in Paris.

Some Cambodian observers were yesterday more pessimistic, saying that the agreement between the five permanent members was largely irrelevant so long as Mr Hun Sen and the Khmer Rouge are at each other's throats.

Diplomats point out, however, that the five countries include the main sponsors of the rivals – the Soviet Union for Mr Hun Sen and China for the Khmer Rouge. They add that the more detailed the framework that can be elaborated now, the greater the chances of success if a settlement is eventually reached.

The document agreed in Paris late on Tuesday night details some principles under which elections could be held: a single-step process, with the election of a constituent assembly which would then be transformed into a parliament, as happened in Namibia; simplified voter registration, rather than a full-scale census; and the establishment of a Supreme National Council representing "all shades of opinion among the people of Cambodia," which would then delegate its powers to a transitional authority run by the UN.

While the document remains discreet on many points, it represents a step forward on others, including some of the main stumbling blocks in earlier negotiations.

Key among these is the absence of a reference to the genocide carried out by the Khmer Rouge when they controlled Cambodia under Pol Pot. It is not clear that Mr Hun Sen will accept this omission, but Western officials hope that the document's references to guaranteeing the human rights and fundamental freedoms of the Cambodian people will provide a practical and more positive way of addressing the question.

Had the word "genocide" been included, China would not have accepted the document, they say.

The agreement on the form and status of the Supreme National Council, similarly, gets around the sticking point of whether the Hun Sen administration should be totally dissolved before the elections, one of the principal Chinese demands.

The five powers also edged closer to agreement that eligibility to vote should be based on residence in Cambodia before a cut-off date, which could resolve the difficult question of Vietnamese settlers in Cambodia. China, which insists that the settlers should not be eligible, has proposed the date of the Vietnamese invasion which ousted Pol Pot in 1978.

Cairo spring-cleans Arab League HQ

By Tony Walker and Jihan Al-Tahri in Cairo

WORKMEN were busy this week refurbishing a squat, dusty building on the banks of the Nile. They were working overtime in cool spring weather to restore some of the lustre to a structure that until this week had seemed more like a mausoleum than the former headquarters of a body representing all Arab states.

The Arab League general secretariat, which deserted Egypt 11 years ago in protest at the peace treaty with Israel, is returning home. Arab wheeling and dealing will soon resume in the corridors and ornate ante-rooms of the old headquarters.

A short distance downriver, work was also proceeding on a large white building that even in its unfinished state is one of Cairo's most prominent landmarks. Egypt's new Nile-side foreign ministry is taking shape.

The Egyptians are preparing themselves for a new era in which Cairo is again set to become the hub of the Arab world.

This week's decision of Arab Foreign Ministers in Tunis to move the Arab League back to Cairo was much more than a symbolic gesture. It represented a desire to strengthen the fractious League in the face of what are seen as a multitude of challenges facing the Arab world.

The Arabs are worried about changes in Eastern Europe, the new age of superpower detente, the looming challenge of the new unified market in Europe and by the waves of Soviet Jews emigrating to Israel.

Old certainties are crumbling and the Arabs are not sure how to deal with them. The return of their headquarters to "mother Egypt" seemed to most Arab states like a step towards strengthening their hitherto quavering voice in international forums.

Mr Mahmoud Riad, a former Arab League secretary general, said that the return of the general secretariat to Egypt would enable a fresh start to be made in calm and rational decision-making.

Egyptian officials worry that hopes may be unrealistically high over its ability to weld the Arab world's umbrella organisation into a more effective body. They note the deep differences between states and between individual leaders.

But Egypt is overjoyed to have the Arab League back, although it is doing its best not to make too much fuss in deference to Tunisian sensitivities. One of Egypt's core businesses is diplomacy. It will now have a much more effective forum in which to display its wares.

WORLD TRADE NEWS

World textiles reform 'must take account of private interest groups'

EFFORTS to reform world trade in textiles will not succeed unless they take account of the private interest groups that have helped create and shore up the restraints embodied in the Multifibre Arrangement (MFA), according to a World Bank-sponsored study published today, Peter Montagnon, World Trade Editor, writes.

Called Textiles Trade and the Developing Countries*, the study recommends a gradualist approach which builds on the present structure of the MFA without introducing radical and sudden change.

However, it says that the Uruguay Round, in which participants will have to balance their textile concerns against other trade interests, has created a window of opportunity for agreement to unwind the MFA, which could benefit developing countries to the tune of $8bn (£4.7bn) a year.

Perceptions have shifted in both exporting and importing countries which may have altered the balance in favour of reform. The importance of textiles to the most advanced countries has diminished, it says, citing plans by both Sweden and Norway to abandon all quantitative restrictions when the present MFA expires.

Meanwhile, the "emerging exporters" like China and India, which have an interest in breaking free of quota restraints, may now have more clout at the bargaining table than traditional exporters such as Hong Kong whose market share is guaranteed by the MFA.

The study includes a chapter by Mr Marcelo Raffaelli, an official of the General Agreement of Tariffs and and Trade (Gatt) and chairman of its Textiles Surveillance Body. Mr Raffaelli warns that only by agreeing to a seven or eight year transition period for reform, will governments be able to silence the arguments of protectionists.

He cautions against replacing quotas with excessively high tariffs as well as against the introduction of global quotas which importing countries could auction. High tariffs could lead to a lasting distortion of trade, while global quotas, which have been proposed by the US, would generate revenue governments might be reluctant to forgo.

Instead, a more gradual approach should be adopted, starting with the phase-out of those existing restraints which account for only a small proportion of consumption in importing countries. The scope for introducing new import restraints would also be restricted.

Minimum rates would be set for annual growth in quotas and the powers of the Textiles Surveillance Body should be enhanced, so that, eventually, its consent would be required before any new restraints were imposed by a member country.

At the end of the process, trade in textiles would come under normal Gatt rules. Importing countries would still be able to protect their industries, but only through recognised Gatt instruments. They would also be unable to claim they had given something away for nothing, since they would have had the benefit of seven years' extra protection during the transition period, Mr Raffaelli said.

**Textiles Trade and Developing Countries. Carl B. Hamilton, Editor. $22.95 from World Bank, 1818 H Street NW, Washington, DC 20433.*

US to table blueprint for meeting one-third tariff cuts today

By William Dullforce in Geneva

THE US will today table its blueprint for meeting the one-third reduction in average tariff levels which trade ministers have set as the target for all countries in Gatt's Uruguay Round.

Washington was signalling its readiness to take an important step in opening up the US market to imports, but it would not lower its customs duties unilaterally, Mr Rufus Yerxa, Deputy US Trade Representative, said yesterday.

A satisfactory outcome to the tariff negotiations would cost other countries more. The US had gone a long way in cutting its duties in previous Gatt rounds and now expected others to make disproportionately larger reductions, Mr Yerxa said.

The US delegation released tables to illustrate the great disparities between the current tariff levels applied by Gatt members and the level of tariff bindings. By "binding" a tariff, a country undertakes not to raise it again.

Pakistan and India maintain average tariff levels of about 100 per cent and have bound none of their duties. The US average tariff level is 4.9 per cent, with 98.8 per cent of duties bound.

Other controversies are raised by the US offer. Washington proposes to reach almost one-fifth of the trade ministers' target by eliminating all tariffs on agricultural imports. The European Community insists that agricultural tariffs must be handled in the separate talks on the reform of world farm trade. Japan, too, has so far refused to put its farm tariffs on the negotiating table.

The US offers to meet one-third of the target by "exploring" the possibility of allowing duty-free imports of selected industrial products, provided other countries provide the same treatment for the products.

Sectors listed include wood and paper products, some chemicals, steel, aluminium, some construction equipment and certain electronic articles.

Concessions on other imported products would be made only in response to requests from other countries. But, Mr Yerxa stressed, the 1988 US Trade Act gave President George Bush very flexible negotiating authority. Existing duty rates of 5 per cent and below can be eliminated and duty rates above 5 per cent may be cut by half.

Duties on imports of textile and clothing were a sensitive issue for the US, Mr Yerxa acknowledged. Theoretically, the US delegation could negotiate cuts of up to 50 per cent in the duties, but tariff levels would depend on a reasonable outcome in the separate talks in the Uruguay Round on ways of integrating the Multifibre Arrangement, which currently governs trade in textiles, into Gatt.

Coca-Cola India move 'rejected'

THE INDIAN Government has rejected a proposal by Coca-Cola to establish an export-oriented plant in India, informed sources say, David Housego reports from New Delhi. The US soft-drink maker had yesterday not been told officially of the rejection of its proposal, but is expecting it within days. The plan was intended to mark its return to the Indian market after 12 years, and the rejection is likely to damage on the foreign investment climate.

Coca-Cola, which had been planning a $2m (£1.1m) investment, had sought to take advantage of Indian regulations letting companies set up an export industry to distribute 25 per cent of their output on the domestic market. Opposition from Indian soft drink makers and the political left had made the former government of Mr Rajiv Gandhi shelve a decision.

Among ministers in the new National Front administration is Mr George Fernandes, who as a previous Industry Minister, refused to let Coca-Cola stay in India unless it diluted its foreign holding. Mr Fernandes has opposed Coca-Cola's re-entry. Coca-Cola had envisaged a plant at the Noida export processing zone near Delhi to make concentrate. In a bid to make its proposal palatable to New Delhi, it had agreed to further export commitments.

The proposal had been opposed by Pepsico which had had to make far bigger investments in food processing in India before gaining a foothold in the soft drinks market. Pepsico has also proposed an export-oriented venture, but this is likely to be refused.

Mexico, Canada boost trade links

By Richard Johns in Mexico City

AN important economic framework agreement between Mexico and Canada, aimed at laying the basis for substantial expansion of trade and investment flows, will be signed here during the visit of Canada's Premier Mr Brian Mulroney, which starts today.

Mr Mulroney arrives at the end of an intensive 15-month economic-oriented diplomatic drive by President Carlos Salinas de Gortari during his first 15 months of office. The two will be resuming a dialogue initiated in Paris last July.

Since 1981, Mexico has maintained a healthy surplus with Canada, mainly through export of manufactured goods, especially in recent years, car engines and parts. Last year, sales to Canada were worth C$1.3bn (£619m) against imports of C$486m, Ottawa says.

Last week, Mr Herminio Blanco Mendoza, Under-Secretary for trade at the Ministry of Commerce and Industry (SECOFI), said that, proximity apart, "this trade is not enough for the size of our economies, so we have to do something further".

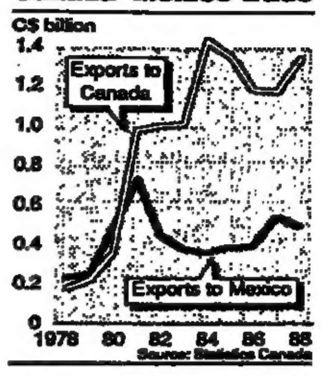
Mexico is also concerned about the implications of the US-Canadian Free Trade Agreement (FTA) which came into effect at the beginning of 1989 and over a 10-year period, will eliminate most trade barriers between the two.

Reassuringly, SECOFI studies indicate that on the basis of zero tariffs, Mexico's interests will not be seriously damaged and that, although there will be some Canadian substitution of Mexican products, "there are some interesting complementarities" – the catchword here with regard to bilateral relations with Canada – and trade flows between the two countries should on balance be stimulated.

The extraordinary importance given by Mexico to its relations with Canada was reflected by the fact that the joint ministerial commission in Ottawa towards the end of January was attended by no less than seven out of 18 of its Ministers, as well as the Attorney-General.

An agreement on combating narcotics trafficking is one of ten which are scheduled to be signed here.

Canada-Mexico trade



Source: Statistics Canada

Both Mexico and Canada share a lowest common denominator of fear about being overwhelmed economically by the US, their most powerful economic neighbour.

While Canada took the plunge in entering into the FTA – not without misgivings and at considerable risk to Mr Mulroney's Conservative Government, Mexico is gauging the speed at which it can integrate into the powerful trade bloc through sectoral agreements – a process which many in the private sector would like to see accelerated.

Implicitly, Mr Blanco made it clear where Mexico's priorities lie when discussing economic collaboration with Canada.

"We can complement each other to be a successful competing unit against Europe, against Japan and against the whole Pacific Basin," he declared.

The framework agreement, similar in scope to one concluded with the US last October, would "put a lot of new blood into what both countries should be doing to further their trade".

Mr Blanco said he expected a specific accord on agriculture to boost trade flows.

Mexico has overtaken Brazil as Canada's leading trading partner in Latin America and is now Ottawa's "first priority" in the region, according to its diplomats here.

Besides trade, Canada ranks eighth in investment terms in Mexico, but the cumulative total of capital committed is only $400m (235m), a sum exceeded by many multinationals.

Importers win EC dumping appeal

By David Buchan in Brussels

THE right of legal appeal against EC anti-dumping duties has been given to certain importers, as well as exporters, of allegedly dumped products, under a ruling handed down yesterday by the European Court of Justice.

In a case concerning two so-called original equipment manufacturers (OEMs), Nashua of the US and Gestetner of Britain, which buy Japanese photocopiers and re-market them in Europe under their own name, the Court ruled that since the profit margin for OEMs entered into the Brussels Commission's calculations of Japanese dumping, such intermediary companies were "directly and individually" affected by Community anti-dumping actions.

Yesterday's ruling thus establishes for middlemen such as the OEMs a right of appeal against dumping duties that hitherto had only been considered open to actual manufacturers of the equipment bearing dumping duties.

At the same time, the court brushed aside the complaint of the OEMs that the Commission has refused their offer to raise the price and limit the quantity of their copier sales in the EC to avoid inclusion in the Commission's 1987 imposition of dumping duties on copiers.

The court upheld the Commission contention that importers were in no position to offer undertakings.

Eximbank backs $95m credits for Mexico

By Nancy Dunne in Washington

THE US Export-Import Bank yesterday provided backing for $95m in trade credits for Mexico in the first of a new series of transactions designed to help debtor nations raise financing from the US capital markets.

Mr John Macomber, Eximbank chairman, said the process, called "bundling," will supplement the Brady Plan to ease the debt load on Third World Countries because it releases new financing needed to boost growth.

The facility is being extended to Banco Nacional de Comercio Exterior which will draw on a credit line from First Interstate Bancorp of Los Angeles to finance individual purchases. Once the drawings on the line of credit reach a sufficient value, they will be "bundled" into Eximbank-guaranteed notes and sold on the capital market.

A key player in the arrangement is the Industrial Bank of Japan's Los Angeles agency. It will provide a $13m letter of credit backing the portion of the funds not guaranteed by Eximbank.

The scheme thus helps involve commercial banks to provide new money for Mexico.

Mr Macomber said there is "solid evidence" that this first $80.75m medium-term guarantee facility will be followed by other bundling deals totaling an additional $300-$500m in financing this year. Other debtor countries may eventually qualify for the scheme if they institute economic reforms.

AMERICAN NEWS

Brazil shuts banks ahead of economic package

By Ivo Dawnay in Rio de Janeiro

BANKS and financial markets in Brazil were closed yesterday, after a wave of rumour and speculation over the contents of Brazil's imminent economic package.

At the same time, Mr Mailson da Nobrega, the outgoing Finance Minister, announced a 10.72 per cent devaluation.

The shutdown order came after markets had closed on Tuesday, surprising many and halting thousands of last-minute transactions planned for yesterday, the eve of the inauguration of President-elect Fernando Collor de Mello.

Some newspapers have detailed reports on what they say will be in the anti-inflationary package, due to be announced to Congress tomorrow by Mr Collor's new administration.

These included heavy new taxes on banks and on corporate profits from financial operations, an end to the overnight market in government paper to be superseded by an "overweek" system, large tariff increases, and drastic cuts in subsidies and incentives.

Also the subject of intense discussion was the possibility of the creation of a new currency – which would be the third in four years – and a prices and wages freeze, as ever.

It remained unclear whether the enforced holiday stemmed from a request from Ms Zelia Cardoso de Mello, Finance Minister-designate, or was a move by the outgoing administration of President José Sarney to stem a run on banks and savings accounts.

An unnamed client of a São Paulo bank was planning to withdraw NCz300m ($7.1m) from one account yesterday, according to a television news report. Runaway inflation – now believed close to 90 per cent a month – has encouraged many to hold huge sums in cash deposits, earning interest of 3 per cent or more a day.

Bush and Thatcher to meet

PRESIDENT George Bush and Mrs Margaret Thatcher will meet to discuss European security issues on April 13, Good Friday, on the mid-Atlantic island of Bermuda, Peter Riddell reports from Washington.

Mr Marlin Fitzwater, the White House spokesman, said the informal session would cover a wide range of issues related to events in Eastern Europe, Nato and bilateral relations.

This will be their first meeting since the British Prime Minister visited Washington in late November; since then not only have there been major changes in Europe, particularly over German unification, but Mr Bush has met both President François Mitterrand of France and Chancellor Helmut Kohl of West Germany.

The British side felt that it was time to have a face-to-face meeting to discuss pressing issues associated with German unification such as the future of the alliance, the stationing of allied troops on German soil, the status of German forces within the Nato command structure as well as arms control talks, Lithuanian independence and the political position of Mr Mikhail Gorbachev, the Soviet leader.

Mrs Thatcher has made no secret of her concern over the pace of German unification and she will want to influence US thinking in view of the close Washington-Bonn links on the issue and ahead of Mr Gorbachev's visit to the US in June.

● Mr Bush and Mr Mitterrand will hold talks in Florida on April 19, a French statement said. No reason or agenda for the meeting was given. Their last bilateral meeting was on the Caribbean island of Saint Martin in December.

Argentine economic minister quits

By Gary Mead in Buenos Aires

THE DIVIDED Peronist administration in Argentina has suffered a further blow with the resignation of Mr Hector Gambarotta, deputy Economic Minister.

He submitted his resignation late on Tuesday. This abrupt departure, a week after the introduction of an austerity programme which he played a key role in developing, is linked to a decision to bring back a former Central Bank governor, Mr Javier Gonzalez Fraga, to a senior post in the ministry.

The latter was made governor by President Carlos Menem when he took office in July, but resigned on November 24 over exchange rate policy. Even so, he gained the respect of Mr Antonio Erman Gonzalez, who was then a Central Bank vice-governor. Since being appointed Economy Minister in last December, Mr Erman Gonzalez has tried to draw Mr Gonzalez Fraga back to the economic team.

Mr Gambarotta's resignation increases speculation that the incipient divisions in the Peronist party, between factions loyal to Mr Menem and those more inclined towards Mr Antonio Cafiero, Governor of Buenos Aires province and president of the Peronist party, now stand even less chance of being papered over.

Mr Cafiero was unexpectedly defeated by Mr Menem in the race for the Peronist presidential nomination, since when the former has been lukewarm towards the latter, and has never given unqualified support to the president's economic policies. Before he joined the cabinet, Mr Gambarotta was in Mr Cafiero's provincial economic ministry.

In particular, Mr Cafiero this week has expressed sympathy for trade unionists who are demanding a reversal of Mr Menem's drive towards privatisation of a dozen loss-making state companies.

SEC proposals to face opposition

By Peter Riddell, US Editor, in Washington

PROPOSALS TO allow the Securities and Exchange Commission to curb computerised programme trading approved late on Tuesday by a House committee face stiff opposition in the Senate and from the Treasury.

After several months of debate, the House Energy and Commerce Committee has approved legislation giving the SEC strengthened powers. These include the authority to require the disclosure of large securities' trades and authorising it to assess the financial condition of brokerage firms' holding companies. The SEC can require quarterly reports on the financial condition of the affiliates of broker dealers.

These power were particularly sought by the SEC, and backed by the Treasury, after last month's Drexel collapse. However, controversy remains over provisions to permit the SEC to prohibit or restrict activities, mainly programme trading, that have contributed to market volatility, and may continue to do so.

The wording has been toned down to limit the authority of the SEC to an emergency power, and has the support of the SEC. But the Treasury continues to oppose such limits on programme trading as "overly broad and potentially harmful." The Treasury will seek support when the bill goes to the House floor.

A parallel bill now awaiting action on the Senate floor does not include any ban on programme trading. Differences will have to be resolved in a Senate/House conference.

Before the bill was approved, members of the House committee were informed by Mr Robert Glauber, a Treasury under secretary, that the department thought the revised language still gave the SEC "extremely sweeping authority."

Mr Glauber said the Treasury continued "to believe that the blunt approach of government intervention to stop programme trading is an inappropriate way to address these problems."

The Treasury is pressing for a single regulatory framework for stocks, options and stock index futures.

Expansion 'slow' in US

By Anthony Harris in Washington

ECONOMIC activity is expanding slowly in most parts of the US, according to reports yesterday from the banks in the Federal Reserve system.

However, construction is drifting down, with no recovery expected this year, and manufacturing was still depressed at the beginning of March. Credit demand is reported to be soft. The reports, in what is known as the Beige Book, provide the most up-to-date picture of the real economy. The Book will go before the Federal Open Market Committee at its next meeting on March 27.

The report, which reflects conditions up to March 6, suggests no development which might provoke a change in monetary policy.

Also, the report shows sharp contrasts between different sectors. That of aircraft is reported working at full stretch for the indefinite future, but weakness in the car industry is reported as having widespread effects, and the computer section is also weak.

● The Commerce Department reported a 0.2 per cent rise in business inventories in January, despite a fall of more than 5 per cent in automotive trade stocks.

Grenada seeks coalition

MR BEN JONES, outgoing Prime Minister of Grenada, was yesterday at the centre of efforts to create a government in the Caribbean island, no party which contested the general election on Tuesday having a workable majority in the 15-seat parliament, Canute James reports from Kingston.

Mr Jones, the only minister of the ruling National Party to keep his seat, was being approached by other parties, mainly the National Democratic Congress, led by Mr Nicholas Braithwaite, which took seven seats.

The latter said Mr Jones was the only other successful candidate with whom the NDC could form a coalition, but the premier was expected to ask for a senior cabinet post.

The Grenada United Labour Party of Sir Eric Gairy, former prime minister, gained five seats.

Venezuela debt deal takes shape

By Stephen Fidler, Euromarkets Correspondent

A COMPREHENSIVE deal to restructure Venezuela's medium-term bank debt appears rapidly taking shape in New York in talks between Venezuela and its bank creditors.

The deal, which will aim to lower Venezuela's $20.5bn (£12bn) bank debt burden under the initiative launched by Mr Nicholas Brady, US Treasury Secretary, is likely to offer more options to banks than any of the three deals so far agreed.

Deals for Mexico and Manila are essentially complete. Bankers say a deal agreed with top bankers for Costa Rica is in temporary abeyance, with the country having missed IMF targets. Bankers, who believe an agreement with Venezuela could be announced over the next week, say the following options are being discussed:

● New money: Banks could provide new money equal to 20 per cent existing exposure. This is likely to be accomplished by the issue of new 18-year floating rate notes at an interest margin of ⅞ of a point, covering old and new debt. Thus, a bank with $500m exposure will get a new floating rate note of $600m.

● Bonds for debt swaps: Debt and debt service reduction bonds with 30-year maturity, similar to those in the Mexico package, could well be offered. The banks and Venezuela appear closer on the discount to face value, with talk apparently centring on a 25-30 per cent discount, against 35 per cent in the Mexican deal.

● A debt buy-back: An element of the Philippines deal but not the Mexican one, the buy-back for cash may be offered at a 50 per cent-or-more discount.

● A partial interest "holiday": Banks may opt to give Venezuela reduced interest for five years, with interest returning to market rates afterwards.

Bankers say some important issues remain to be resolved. Banks are keen for a strong "value recovery" element in the bonds for debt swaps, allowing them to recoup concessions if Venezuela's economy, especially the oil price, performs successfully.

Leading banks disagree whether the Venezuela deal should be offered as a single package through the advisory committee of banks led by Chase Manhattan, or the options should be offered separately. Venezuela is resisting comprehensive restructuring of the debt of any bank which chooses none of the options. The government sees this as an encouragement to banks not to participate.

Each option will involve banks going into a new accord with Venezuela, similar to the Mexican case. Non-participants will be left in old agreements. One complication, bankers say, is that it is not yet known what official resources, including IMF and World Bank funds, will be available to back the deal.

Texan primary goes to oilman

MR CLAYTON Williams, a multi-millionaire rancher-oilman who boasts of his fist-fighting ability, is the early front-runner to win the governorship of Texas, having won the Republican Party primary on Tuesday with 61 per cent of the vote, Peter Riddell reports from Washington.

The Democrats will need a run-off on April 10, a bruising primary having left Mrs Ann Richards, state Treasurer, with 40 per cent of the vote, slightly ahead of Mr Jim Mattox, state Attorney-General, on 37 per cent. Former governor Mark White was eliminated with 19 per cent.

Mr Williams, who spent $8m (£4.7m), mainly his own money, to win, has been shown with alleged convicts breaking stones – his answer to the state's drug problem.

The decisive election will be in November.

A novel solution in Peru's poll

Sally Bowen reports on growing support for Mario Vargas Llosa

AN upwardly-mobile staircase and a germinating bean are two new choices in the bewildering array of party logos facing Peruvian electors as they prepare for the general elections on April 8. So far, the staircase, symbol of novelist Mr Mario Vargas Llosa's right-of-centre Democratic Front (Fredemo), has a healthy lead in the polls over the kidney-shaped pulse that represents Socialist Left (IS) candidate Alfonso Barrantes – affectionately known as *frejolito* (little bean).

This election, the third in Peru's decade of democracy, is all about change – again. The country's dire economic plight after almost five years of government by Alan Garcia's American Popular Revolutionary Alliance (Apra) has forced all candidates – even Apra's own – to distance themselves from current policy; and the further the better.

Novelist Mr Vargas Llosa is likely to win the presidency even though he will probably have to go to a second round run-off. His Fredemo alliance is also predicted to win overall majorities in both houses of congress. An admirer of Mrs Margaret Thatcher, the 53-year-old writer promises a liberal economic package to reduce the state sector, cut bureaucracy, privatise extensively, reward individual initiative and promote property ownership.

In a country where corruption is rife and politicians discredited, voters perceive this writer turned national saviour as honest and essentially non-political.

He cuts a handsome figure in his moralising TV spots, but it is common to hear commentators say in Lima: "Peruvians will vote for him from necessity, not affection."

Fredemo's main electoral drawback is its dependence on two established, but partially discredited Peruvian parties, Popular Action (AP), led by former President Fernando Belaunde Terry, and the Popular Christian Party (PPC).

Mr Vargas Llosa's Movement for Liberty has attracted many previously apolitical businessmen and educated, largely middle-class Peruvians since it was established as a rallying point against President Alan Garcia's 1987 attempt to nationalise the banks. But there have been several temporary rifts within the Fredemo alliance over the past nine months and the future of the coalition in government looks uneasy at best.

Opinion surveys suggest Mr Vargas Llosa will capture around 50 per cent of the popular vote, but surveys almost certainly underestimate the traditional strength of the left-wing parties in the Andes.

Almost 10m Peruvians of a total population of 21m are registered to vote and forecasts indicate that some 8m will get to a polling station. But of those who make it to a polling station, anywhere between a fifth and a third will spoil their votes, through fear of terrorist reprisals or because of simple disenchantment with politics.

Spoiled ballots will almost certainly rob Mr Vargas Llosa of a first round victory, despite his high-profile television-oriented campaign which political analysts say is costing well in excess of $10m. Television is more important than ever to reach remote areas where traditional whistle-stop campaigning is too dangerous.

The main question is over who will take the novelist into the second round. The Peruvian left split last year, leaving the original United Left (IU) as a strong grass-roots party with a respected but uncharismatic candidate in 44-year-old university professor Henry Pease.

The moderate left has a popular candidate in the 62-year-old Cajamarca-born lawyer and ex-mayor of Lima, Alfonso Barrantes, but it lacks a popular organisation.

The ruling party candidate, 48-year-old Luis Alva Castro, is overshadowed by the irrepressible President Alan Garcia – prevented constitutionally from running again this year but with his sights set on a 1995 comeback.

The Vargas Llosa campaign, directed by the American publicity agency Sawyer Miller (chosen after the candidate's first choice, Saatchi & Saatchi, turned down the contract), could perhaps still pull out all the stops for a first-round win with emotional appeals.

But thus far Mr Vargas Llosa has remained adamantly opposed to what he sees as playing the distasteful political game.

AMERICAN NEWS

The ways of General Stroessner linger on

John Barham visits Paraguay where the faces have changed but values stay the same

Paraguay used to be a typical Third World tin-pot dictatorship. Now it has become yet another struggling Third World democracy. A year ago, General Alfredo Stroessner's brutal alliance with corrupt soldiers, grasping politicians and a rapacious merchant class ended in a coup.

Today, the outward symbols of democracy flourish, yet the essence of Stroessnerism lingers on. Gen Stroessner's successor, President Andrés Rodriguez has become the real power in the land.

He is the army general who rose to prominence under Gen Stroessner, only to topple the old tyrant in a coup and triumph in free-ish elections in May. The previous regime had become too crude, too inefficient and too embarrassing to continue.

Now Gen Stroessner spends his lonely exile watching television and rarely leaves his house in Brasilia. Under Mr Rodriguez, the press is free, Congress functions, human rights are almost inviolate.

The notorious kleptocracy has been softened. Contraband has been brought into the open, casinos and lottery operations pay higher taxes (payable to the treasury) and overt corruption is discouraged.

Nonetheless, the old ways die hard. The new president's family and cronies have taken over the old guard's businesses, although many chief bureacrats have kept their jobs or been promoted.

Payoffs, commissions and contributions continue, albeit at lower intensity. The Colorado party, which has ruled Paraguay for half a century remains entrenched in power. Above all, the army is still the key to business and politics in Paraguay.

President Andrés Rodriguez: the man who rose under Stroessner before toppling him a year ago

Mr Rodriguez, a career soldier, has built up an impressive fortune. His extended family is reliably said to own interests in exchange houses, banks, cigarette and luxury car concessions and a brewery as well as a number of ranches.

A western diplomat commented: "By Paraguayan standards, he is not corrupt. It is an acceptable army tradition to spend half your day on private business."

Mr Miguel Angel Casabianco, a former exile and now an ambassador at large, recognised that "the February 1989 coup was not a revolution, where an entire structure is changed." Naturally, there are structures that have remained from the old regime and take time to be changed.

But it cannot be denied that there has been a major advance. The Government is taking the initiative to advance and deepen democratic reforms."

Mr Domingo Laino, the wild-haired leader of the opposition Authentic Liberal Radical Party (PLRA), one of the few Paraguayan politicians who dared stand up to Gen Stroessner, retorted that "It's not difficult to improve on Stroessner's folkloric Hitlerism. In political terms, things have advanced, although repression of social and economic demands continue. Nothing has been done against corruption."

However, a sympathetic diplomat pointed out that Paraguay cannot be expected to suddenly blossom into a modern society after 35 years of Stroessner.

And even the new government's enemies admit that its liberal economic management is reasonably sound.

Inflation rose 30 per cent and the economy grew 5.5 per cent in 1989. Trade and private investment are rising. However, commentators argue that civilian politics are virtually irrelevant in a country that has known little more than a decade of true democracy during 180 years of independence.

Real power emanates from the presidential palace, which is ultimately answerable only to the army. "Rodriguez keeps control over every bit of society, just as Stroessner did," Mr Ricardo Caballero, an editor at ABC Color, an opposition newspaper, said. "The power accumulated in the presidency is still there. The new people coming up want to get rich too." President Rodriguez has purged Stroessner loyalists from the army and the Colorado party.

Paraguayans are revelling in their new freedoms, but they are still uncomfortable with the complexities of democracy. Mr Caballero said "we have a counterfeit democracy. Our politicians lack the sixth sense of real politicians. They have no policies of their own. As long as civilian leaders have this image, the army will fill the gap."

An Asuncion street vendor said: "Democracy is very nice, but it is expensive. Prices go up, but our incomes do not. Democracy is for the politicians, not the people. Now there is crime, but there wasn't any under Stroessner."

However, President Rodriguez remains very popular and the Colorado party should do well in the October local elections.

Yet Paraguay's real democratic test will come when unrest or demand for meaningful change begins to emerge, tempting the army, the government and the Colorado party - the main Paraguayan political power - to revert to type.

Noriega wins early round in US drug case

By Henry Hamman in Miami

GENERAL Manuel Antonio Noriega, the former military ruler of Panama who is facing drug trafficking charges in a US court, has won a victory in preliminary legal skirmishing.

The trial judge, William Hoeveler, has ruled that Gen Noriega's lawyers will be able to keep their strategy for using classified information secret from the Government until close to the start of the trial.

The decision came in an order which is required by the US Classified Information Procedures Act (CIPA). CIPA governs the use of classified information in trials and is supposed to protect defendants' right to a fair trial while guarding the government against the release of sensitive information.

In other recent cases involving classified information, government prosecutors have been able to learn something of defence strategy by finding out what classified documents the defence wants to use.

In the Iran-Contra trials of both Colonel Oliver North and Admiral John Poindexter, Justice Department officials have had some access to information about defence plans to use classified information.

But Judge Hoeveler's order specifies that the prosecution is not to be told about information the defence is seeking without a special court order or defence permission.

Gen Noriega's legal expert on classified documents, New York attorney David Lewis, was elated at the decision. "We won the most important issue," he said.

Mr Lewis was less enthusiastic about another aspect of Judge Hoeveler's ruling. The judge appears to have extended restraints on the release of classified information to include not only US classified information, but also foreign classified information.

Defence attorneys have said they plan to use foreign intelligence information which was known to Gen Noriega because of his roles as chief of intelligence and head of state.

Nicaragua says $300m US aid may come too late

By Tim Coone in Managua

THE LIFTING of the US trade embargo on Nicaragua and the promise of $300m in economic aid "is a positive signal but it will have little immediate impact" according to Vice-president Dr Sergio Ramirez.

Central Bank cash reserves "are now no more than $8m", he said yesterday in an interview. As a result the state-run banking system has been unable to meet a run on deposits since last month's elections and which has triggered a plunge of the cordoba currency by more than 50 per cent in its value against the dollar on the black market.

Dr Ramirez said "We have not frozen bank deposits so as not to create even more uncertainty. The banks are paying out in so far as they are able" but he added that such a decision may have to be taken "in the coming days." The run has affected both the cordoba and US dollar denominated deposits.

The official exchange rate stands at 46,800 cordobas to the dollar. The parallel or "tourist" rate remains at 58,000, but this week the black market rate rocketed from 60,000 to nearly 100,000 as people discovered they were unable to convert their cordoba holdings into more secure foreign currency.

Many local and foreign companies hold their cash reserves in high interest-bearing cordoba time deposits in preference to dollars since the former came on offer last year and when the foreign exchange market began to stabilise under an austere adjustment plan.

The black market rate for the dollar underpins many prices in the economy. If the foreign exchange scarcity persists, Mrs Violeta Barrios de Chamorro the president-elect, could take over the government on April 25 in the midst of a new surge of inflation, without funds in the banking system to finance the next crop cycle, and with the prospect of a burst of wage demands.

Although $300m in economic support has been promised by US President George Bush for the new Government, this may well arrive too late to prevent an economic debacle during the handover.

UK NEWS

Testing times in the tumult of world affairs

Philip Stephens finds Britain's Foreign Secretary invigorated by challenge and change

IT HAS become a political cliche that Mr Douglas Hurd was born to be a Conservative Foreign Secretary. Every week he spends in the job reinforces the impression that it is one of the few such truisms worth repeating.

Running Britain's foreign policy – albeit under the watchful and frequently intrusive scrutiny of a Prime Minister who has her own determined view of Britain's place in the world – has invigorated Mr Hurd.

Barely nine months ago his political future looked less than encouraging. He learnt through the press that his job as Home Secretary had been offered to – and turned down by – Sir Geoffrey Howe in the July Cabinet reshuffle. The Foreign Office was handed to Mr John Major.

After a decent interval, Mr Hurd's destiny seemed a comfortable slot in the House of Lords, with ample time to pursue his hobby of writing political thrillers.

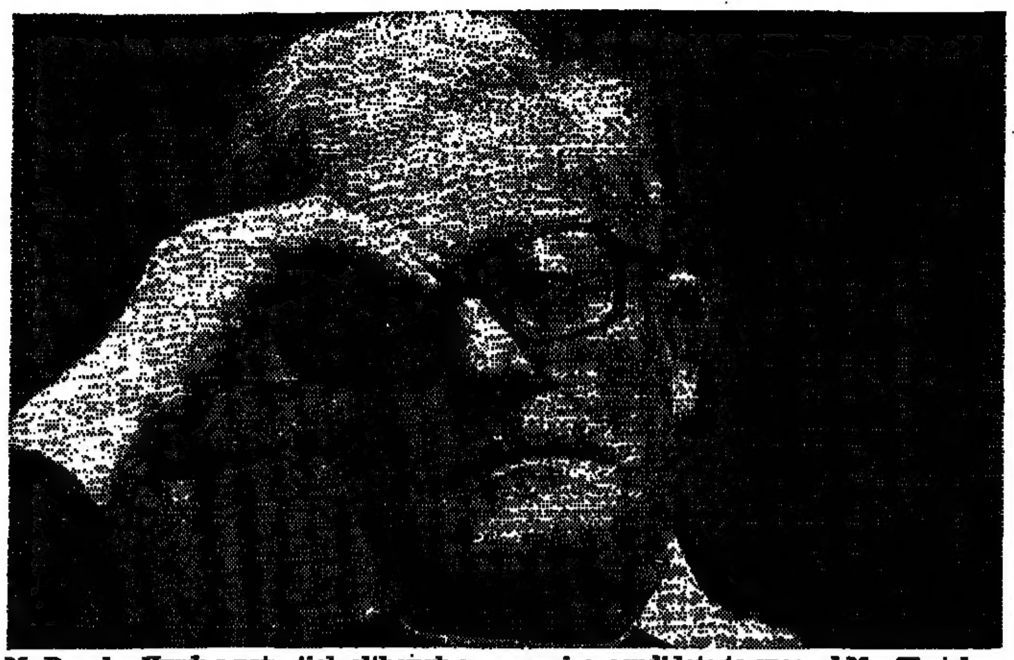
Mr Nigel Lawson's resignation in October changed all that. Mr Major took over as Chancellor; Mrs Thatcher gave Mr Hurd the job which he had always coveted and which she had always seemed determined to deny him.

The tumultuous events in the Soviet Union and in Eastern Europe, the implications for Nato and the European Community of German unification, the troubled outlook for Hong Kong, and beginning of reform in South Africa, have presented the 60-year-old former diplomat with a hectic, if difficult, agenda.

Swapping tours of Britain's prisons and police stations for EC summits, trips to Eastern Europe and forays to Washington and Hong Kong, has enhanced his confidence and political standing at Westminster.

In the still unlikely event that Mrs Margaret Thatcher were to stand down before the next general election, Mr Hurd would be seen as a potential, though compromise candidate for the succession.

Mr Hurd appears hardly ruffled by the Government's present bad patch. The poll tax, he concedes, may never be popular, but it would be improved by next year. Lower inflation and, eventually, lower mortgage rates would help restore the Government's standing.



Mr Douglas Hurd: a potential, although compromise, candidate to succeed Mrs Thatcher

On the health service, the environment and the quality of public services in general, the Government could expect to significantly enhance its image in the run-up to the election.

Mr Hurd's thoughts this week were directed towards more substantive issues than speculation on the Tory backbenches.

The Foreign Office was engaged in a frantic attempt to save the life of a British journalist condemned to death in Iraq. Mr Hurd said he could say nothing on such a sensitive issue – a few hours later an offer to travel personally to Baghdad was rebuffed.

On Monday he held talks in Bonn with Mr Helmut Kohl, the West German Chancellor on the question of German unification. The result, he hoped, had been to draw a line under a "substantial patch of misunderstanding" between Britain and West Germany.

Mr Hurd leaves the impression that he would not have chosen some of the phrases employed by Mrs Thatcher in her outspoken comments on the need for Bonn to recognise its international obligations during the unification process.

He is unapologetic, however, about the aim, and crystal clear about Britain's strong interest in the reunification process.

"The overwhelming British interest is that a united Germany should fit, with a minimum of jars and jolts, into a stable Europe," he said.

Before last month's agreement in Ottawa that the external aspects of unification should be hammered out jointly by the two Germanies and by the four wartime powers – Britain, France, the US and the Soviet Union – there was no framework to ensure that happened.

The Ottawa formula had been a "turning point", as had Bonn's change of heart on the question of guarantees for Poland's post-war borders with East Germany. On the latter, Mr Hurd said: "It is a matter for negotiation but the principle is accepted that the frontiers (with Poland) will stay and will be sanctified by Treaty."

The main priority now for the six, who began talks at official level yesterday, was to ensure that a united Germany remained part of Nato. That, Mr Hurd said, was vital to Western security.

He acknowledged that President Mikhail Gorbachev appeared to have hardened Soviet resistance to such an outcome but said Moscow was setting out a traditional position which would be tested.

No-one wanted to make life more difficult for the Soviets in present circumstances but in the last resort: "They do not have a veto. They have a right of expression."

He expected a further round of official talks quite soon after the May 18 elections in East Germany, followed by a ministerial level gathering towards the end of next month.

"We will be pressing to get on . . . I would like to see the key issues resolved by the time of the CSCE (the 35-nation Conference on Security and Co-operation in Europe) in the autumn."

He is equally keen that the process of absorbing East Germany into the European Community should proceed as rapidly as possible. There will be tough negotiations over the budget and over derogations in such fields as the environment and competition policy.

The Foreign Secretary is cautious though, about the wider implications of unification for closer European integration. His views on the Community – shaped during his time as an aide to Mr Edward Heath during the accession negotiations of the early 1970s – are widely regarded as more positive than those of the Prime Minister.

But he is keen to avoid the sort of clashes which frequently bedevilled relations between Sir Geoffrey and the Prime Minister.

Asked directly whether he is more "European" than Mrs Thatcher, he replies elliptically that: "I see the Prime Minister very often and I think that we work together very well . . But neither of us dictates the other's phraseology. I think that is as it should be."

So, though he speaks of the need – when Mr Major judges the economic conditions are right – for Britain to take sterling into the exchange rate mechanism of the European Monetary System, he is more circumspect about more far-reaching institutional changes such as a single central bank.

The view that a unified Germany makes a more closely-integrated Europe more urgent is met with a certain scepticism: "I do not think it is axiomatic that you would make the Germans less German by changing the (EC) institutions."

Britain would play a positive role in the InterGovernmental Conference on economic and monetary union due to begin in December but, changes in existing institutions should not necessarily be a priority.

The Foreign Secretary plays down widespread reports at Westminster that he was dismayed by Mrs Thatcher's decision last month to break with the rest of the EC and lift some of its sanctions against South Africa after the release of Mr Nelson Mandela.

Mr Hurd, who will visit Pretoria on a fact-finding mission next week, agrees that he would have preferred the compromise he offered to other Community governments – an agreement by the 12 that they would all lift the investment ban when the South African government ended the present State of Emergency.

But if unilateral action by Britain was "second best," it was essential to respond positively to President F W de Klerk's commitment to reform. He is cautious about the message he will be taking to Pretoria, but it is clear that Britain will now like its response to be followed by an end of the State of Emergency.

From South Africa he will return to what is expected to be a stormy reception from a large minority of the Government's own supporters to his plans to grant full British citizenship to up to 225,000 people in Hong Kong.

British economy faces renewed outbreak of pay-rise pressure

By John Gapper, Labour Editor

A FRESH outbreak of wage pressure in the British economy was signalled yesterday when British Rail unions rejected an 8 per cent pay offer and a reduction in the working week from 39 to 37 hours, tied to productivity improvements.

Union leaders in the electricity supply industry said they would ballot 76,000 manual workers on industrial action over an 8.5 per cent offer, while 28,000 gas manual workers only narrowly accepted rises of between 9 and 9.8 per cent.

British Rail union leaders said they were seeking a pay increase of at least 10 per cent for 93,000 staff.

They said the conditions set by BR for a reduction in the manual working week were too harsh.

There is concern among unions at the effect of inflation and the introduction of the community charge or poll tax on members' standards of living.

Leaders of the rail unions said they wanted to build on the "marginal" amount by which last year's 8.8 per cent wage settlement was above inflation. The figure was agreed after a series of one-day strikes.

Mr Andy Dodds, assistant general secretary of the National Union of Railwaymen, said he believed members would be willing to take action to force a higher pay increase.

He said they wanted an increase of at least the 10.2 per cent won by workers at Ford Motor Company in January to "clawback" some of the problems of low pay and long working hours in the industry.

Mr Paul Watkinson, employee relations director of British Rail, said he believed that 8 per cent was a fair opening offer.

He said it was pitched at a level that would allow BR to retain and motivate its staff.

Some 23 per cent of all wage settlements fall in April, and renewed conflict in large national negotiations is likely to damage the chances of wage increases being contained below the rate of inflation, as the Government has urged.

The Government is facing tough negotiations on wage settlements for its 280,000 middle-ranking and junior civil servants, who should receive pay rises of between 7.2 and 9.4 per cent under long-term pay deals agreed last year.

New peak landing fees at Heathrow, Gatwick

Small aircraft face London airports ban

By Paul Betts, Aerospace Correspondent

REGIONAL airline companies risk being priced out of London's two largest airports, Heathrow and Gatwick, because of sharply higher landing fees at peak hours coupled with higher navigational and air traffic control charges in British airspace.

Small airlines and corporate jet users are also concerned about proposals to ban all aircraft with fewer than 80 seats from both Heathrow and Gatwick.

The higher landing fees and the aircraft size restriction proposals have also been opposed by British Aerospace, which fears that the moves might damage sales of its range of small turboprop regional airliners and corporate jet aircraft.

Air UK, in which KLM Royal Dutch Airlines holds a minority stake, has decided to halt its Norwich-Heathrow service operated by a Shorts 360 turboprop aircraft at the end of this month because of the higher Heathrow landing fees.

Other regional airlines, including Brymon, have warned that the higher charges and possible aircraft size restrictions might severely restrict regional air services in the UK.

They have also given warnings that regional air fares are likely to rise by 10-15 per cent next month as a result of the higher charges.

New charges to be set this week by BAA, the airport operator, include a £50 increase to around £400 in the peak-hours landing charge for all types of jets at Heathrow, and a higher peak-hours charge for turboprops.

BAA also intends to introduce a flat landing rate for peak hours at Gatwick from next month of about £315 for jets and £299 for turboprops.

One small airline source said yesterday: "It will cost virtually the same to land a jumbo jet or a tiny turboprop at Gatwick next month in peak hours." BAA said the fees reflected the scarcity of landing slots at peak hours at both Heathrow and Gatwick.

An official added: "The idea is to recognise the value of scarce resources at peak periods at our airports."

Poll tax chief will be Welsh Secretary

Michael Cassell, Political Correspondent

MR DAVID HUNT, the UK local government minister with responsibility for the new local government poll tax, is to replace Mr Peter Walker as Welsh Secretary, though not until the end of May.

The decision to announce Mr Hunt's appointment so far in advance is thought at Westminster to be without parallel. It was made to end speculation about Mr Walker's successor, following the premature disclosure earlier this month of his intended resignation.

There had been suggestions that the identity of the new Welsh Secretary might not be revealed until any summer reshuffle. Downing Street indicated, however, that the Prime Minister, Mrs Margaret Thatcher, wants to avoid changes this year.

The timing of the takeover is intended to allow Mr Walker to wind down at the Welsh Office and to allow Mr Hunt to see through the implementation of the poll tax and any charge-capping measures on high-spending councils. Mr Hunt, 45, was born in Wales and represents Wirral West.

UK NEWS

North-west England plans £500m development

Manchester unveils its bid to hold 1996 Olympics

By Ian Hamilton Fazey, Northern Correspondent

MANCHESTER yesterday announced its bid for staging the 1996 Olympic Games. Plans include a £500m development for a main stadium, swimming pool and arena, and an Olympic village designed to be converted into a science park.

The plans involve 25 sites in north-west England, with the 1,000-acre main site on the banks of the Manchester Ship Canal, near the junction of the M62 and M63 motorways and 20 minutes from Manchester Airport.

Details of Manchester's bid as the British candidate for the games have already been submitted to the International Olympic Committee, which is to decide between six contenders at its meeting in Tokyo on September 18.

A total of 31 venues or groups of facilities are needed, of which 14 are in place and 12 are in planning or development for reasons other than the games. The new ones, which will be in the canalside complex, will cost about £500m but interest is said by organisers to be "strong" among property developers.

The bulk of the Olympic village would not become housing afterwards but a science park for high technology industry. Modular building design would enable easy conversion. The area abuts Trafford Park, the 2,000-acre industrial estate being rejuvenated by an urban development corporation.

The plans have the full support of the Manchester Ship Canal Company and North West Water, which own most of the canalside land.

Mr Rick Parry, director of the Manchester Olympic Bid, said operating profits were conservatively forecast at between £125m and £175m on budgeted income of £650m from television rights. Members of the IOC had suggested that £1bn would be a more realistic figure by 1996.

An independent report on the likely economic impact last month put the national benefit of Manchester staging the games at £2bn. The city is competing with Athens, Atlanta, Belgrade, Melbourne and Toronto.

Mr Bob Scott, the bid's chairman, said good security, and existing infrastructure and facilities were likely to count in Manchester's favour.

Old Trafford Cricket ground would stage baseball – a new sport in the games – with equestrian events at Haydock Park racecourse and in the grounds of Tatton Park – a former stately home near Knutsford.

Football would be played at Old Trafford, Anfield and Goodison Park, the homes of Manchester United, Liverpool and Everton football clubs respectively – while fencing would be at the Liverpool Garden Festival Hall. G-Mex, formerly Manchester Central Station and now an exhibition hall, would put on volleyball.

Chester would stage canoe racing and rowing and Bury the white water canoeing. The yachting regatta would be in Tremadog Bay, off Pwllheli, North Wales. Boxing is scheduled for the Zeri entertainment and leisure complex planned near Accrington.

MANCHESTER key facts: 189 miles NW of London. Charter of Incorporation, 1838. Created a City in 1853. Population (1981) 448,674. Area approx 45 sq miles. University founded 1880. Connected to Irish Sea by Manchester Ship Canal (opened 1894). Commercial and industrial centre engaged in engineering, chemicals, clothing, food processing and textile industries. Banking and insurance centre.

Rush hour train driven wrong way up tunnel

By Roy Hodson

An empty London underground train was driven along a tunnel in the wrong direction towards a train packed with passengers during last Monday evening's rush-hour at 6 pm in an incident that London Underground is now giving the priority of a major disaster.

The driver of the empty train became disoriented after being told to manoeuvre the train to a cross-over point. The signalling system was unable to cope as he set off north instead of south on the Piccadilly Line from Kings Cross.

The rogue train was stopped just 400 feet from a stationary train crammed with 800 passengers.

Kings Cross was the scene of a fire disaster on November 18, 1987 in which 31 people were killed.

Disaster was averted in this new incident by the prompt action of the driver of the stationary train. He saw approaching train lights and reached through his window to seize some 12-volt telephone wires, shorting the circuit.

A programme is now going on throughout the underground network to redesign parts of the signalling system. Work will be completed by the weekend. Fifty stationary red lights are being fitted at points identified as possible accident sites. of a similar accident.

"The present signalling system cannot understand that a train is going backwards in a one-way tunnel", a London Underground manager said last night. "The new lights will warn a driver in the remote possibility of this ever happening again".

Vauxhall, Peugeot and Nissan help to push motor output up 5.9%

Car production at highest level since 1977

By Kevin Done, Motor Industry Correspondent

UK car production increased by 5.9 per cent last year to 1.299m, the highest level since 1977, according to figures from the Society of Motor Manufacturers and Traders.

The increase was helped by sharply higher output by Vauxhall, Peugeot and Nissan.

At the same time, commercial vehicle output rose by 2.9 per cent to 326,590, the highest level since 1980.

Output of both cars and commercial vehicles slowed during the second half of 1989 as the UK vehicle market weakened from previous record levels.

Production of trucks in particular has declined steeply in the last six months with virtually all truck makers now operating on three or four-day weeks.

Car output by Rover, the leading UK car maker, fell by 3.5 per cent to 434,816 from 450,666 a year earlier, in the face of falling sales in the UK and in the US.

The company's Land Rover four-wheel drive vehicle operations performed more strongly, however, with a jump in output of 20.2 per cent to 55,240, supported by a strong increase in sales of its Range Rover four-wheel drive vehicle and the start of production of the Discovery, its new mid-range vehicle.

Vauxhall, the UK subsidiary of General Motors of the US, raised its car output by 18 per cent last year to 208,333.

The other main contributors to the higher level of UK car output were Peugeot at its Ryton, Coventry assembly plant, and Nissan of Japan, which raised production at its Sunderland assembly plant by 36.7 per cent to 77,282.

Car output by Jaguar, the luxury car maker taken over by Ford at the end of last year for £1.6bn, fell by 7.3 per cent to 48,138.

The decline in the UK truck market had a heavy impact on UK truck output last year with production by Iveco Ford at its Langley, Berkshire plant falling by 9.8 per cent and Leyland DAF at its Leyland, Lancashire plant by 5.4 per cent.

UK VEHICLE PRODUCTION

	1989 Jan-Dec	1988 Jan-Dec	1989/88 % Change
CARS			
Total	1,299,082	1,226,835	+5.9
Rover (British Aerospace)*	466,619	474,687	−1.7
Ford	382,581	375,542	+1.9
Vauxhall (General Motors)	208,333	176,489	+18.0
Peugeot	107,195	82,326	+30.2
Nissan	77,282	56,541	+36.7
Jaguar	48,138	51,939	−7.3
Rolls-Royce (Vickers)	3,254	2,968	+9.6
Lotus (General Motors)	1,061	1,336	−20.6
COMMERCIAL VEHICLES			
Total	326,590	317,270	+2.9
Ford	143,971	132,833	+8.4
Rover (British Aerospace)**	44,842	45,612	−1.7
Leyland DAF (DAF)	38,320	36,077	+6.2
IBC Vehicles (GM/Isuzu)††	38,056	34,804	+9.3
Vauxhall (GM)†	29,156	30,211	−3.5
Iveco-Ford	14,894	16,519	−9.8
ERF	4,319	4,258	+1.4
AWD	4,385	5,979	−26.7
Renault Truck Industries	2,368	3,842	−38.4
Seddon Atkinson (Enasa)	1,950	2,430	−19.8
Foden (Paccar)	1,562	1,669	−6.4

*Includes Range Rovers. **Car-derived vans and Land Rovers.
†Car-derived vans sold under Bedford name.
††Medium and micro vans sold under Bedford, Isuzu, GME and Suzuki names.
Source: Society of Motor Manufacturers and Traders

GUINNESS TRIAL

Jury told of decision to suspend Saunders

By Raymond Hughes, Law Courts Correspondent

TWO MEMBERS of the Guinness family yesterday explained why they decided in January 1987 that Mr Ernest Saunders, chairman and chief executive of Guinness, must be suspended.

Mr Edward Guinness, an executive director of the company between 1971 and 1987, said that for him the "killer" had been a report by Price Waterhouse, the company's auditors.

He said it completely contradicted what Mr Saunders had told him about his (Saunders') knowledge of payments made to supporters of Guinness in its takeover battle for Distillers.

Mr Guinness said he had read the report after Mr Saunders had told him that he had been unaware of the nature of what are alleged to have been unlawful payments.

"That was the moment when I turned my face to the wall and realised the inevitable was going to happen," Mr Edward Guinness said.

The Hon Mr Jonathan Guinness, a non-executive director between 1961 and 1988, said he supported Mr Saunders – whom he described as the best managing director Guinness had had since the 1950s – until the executive directors had decided he must go.

The two men were giving evidence at the trial of Mr Saunders, Mr Gerald Ronson, Heron group chairman, Mr Anthony Parnes, a City stockbroker, and Sir Jack Lyons, the millionaire financier.

The four defendants deny charges arising out of an allegedly unlawful share support operation mounted by Guinness during the takeover battle.

Mr Richard Ferguson, QC, for Mr Saunders, suggested to Mr Edward Guinness: "You decided to sacrifice Mr Saunders for what you thought was the good of the company ?"

Mr Edward Guinness agreed. It had, he said, been "a very painful decision."

The trial continues today.

Britain toughens stance on role of French state-owned companies

By Charles Leadbeater and Ian Davidson

THE Government yesterday signalled it may take a tougher stance against French state-owned companies making acquisitions in the UK in a significant shift in the emphasis of competition policy.

The move confirms that the role of French state-owned enterprises is likely to become an increasingly controversial ingredient in negotiations over European Community competition policy.

Meanwhile the French government yesterday attacked plans drawn up by Sir Leon Brittan, the European Commissioner for Competition Policy, to introduce stricter rules governing the reporting of financial relations between governments and their nationalised companies.

Mr John Redwood, the Corporate Affairs Minister, warned that when a public sector company proposed a merger or acquisition, the Director-General of Fair Trading would examine not only that company, but all the state-owned companies in that sector, to determine whether the move would be anti-competitive.

Although Mr Redwood couched his statement in general terms, it is clearly aimed as a shot across the bows of French publicly-owned companies keen to make acquisitions in the UK.

The Government has become concerned that having enacted a wide-ranging privatisation programme, acquisitions by French state-owned companies is reintroducing public ownership through the back door.

Mr Redwood's statement, made to a London conference on European mergers and acquisitions, is also intended to influence negotiations over the European Commission's planned directive on cross border acquisitions.

The Department of Trade and Industry said that while the British market was very open, it was more difficult for British companies to make acquisitions in France partly because of the extent of state ownership.

Mr Redwood said: "We will always consider the competition overlap between companies that fall ultimately under the material influence or control of a single organisation."

He made the statement after announcing that the £301m bid by Orkem, the French state-owned chemical producer for Coates Brothers, the UK inks and resins manufacturer, would not be referred to the Monopolies and Mergers Commission.

MANAGEMENT: Marketing and Advertising

UK advertising

Gradually losing its bloom?

Alice Rawsthorn considers the outlook for the industry

Over the next few days a weighty document will arrive on the desks of the senior executives of London's advertising agencies.

The document is the Advertising Association's latest quarterly forecast of advertising expenditure for the UK. Last summer the AA sent a rocket through the industry by announcing that advertising's era of apparently effortless growth was coming to an end.

The agencies, which were accustomed to revenue rising well ahead of inflation, had their suspicions confirmed that there would be no real growth in advertising expenditure this year.

Three months ago the AA changed its forecast to a fall – in real terms – of 1 per cent for this year. The agencies are now bracing themselves for the news that the AA may have changed its forecast – downwards – yet again.

Since last summer the advertising industry has looked more and more like an industry sliding into recession. The crux of its problems is the impact of increased interest rates on consumer spending and corporate profits. Some clients are cutting their marketing budgets. Others are delaying decisions on new campaigns until the last possible moment.

Most of the major agencies have been forced to cut costs. Scarcely a week goes by without Campaign magazine reporting yet another round of redundancies.

This week the industry's problems were highlighted by the stormy scenes at Saatchi & Saatchi's annual general meeting and by Yellowhammer's announcement that it would report a £3.6m loss for the current financial year.

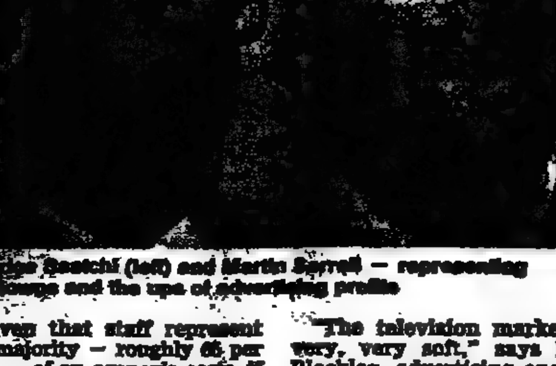
So far, though, all the industry has had to face is a slowdown in the rate of growth – not a real reduction in revenue. In the same week as the Saatchi AGM and Yellowhammer's profits warning, both Lowe and Abbott Mead Vickers have unveiled healthy sets of results.

"We are an industry that has enjoyed such good growth for so long that when growth slows down, everyone talks themselves into a panic," says Martin Sorrell, chief executive of the WPP Group, which owns J Walter Thompson and Ogilvy & Mather, two of the largest agencies.

Mike Waterson, the research consultant who prepares the AA forecasts, agrees: "All that has happened is that the rate of growth has come down to one approaching the growth of the economy as a whole. In any other industry it would not be a big deal."

But advertising is not like other industries. One problem is that its costs are still rising at an average rate of 10 per cent and – despite all the job losses – the competition for talented staff is as hot as ever. This means that agency profitability can fall, even if revenue rises in line with inflation.

Another problem that agencies have is their fixed operating costs. Once an agency has covered costs, its additional revenue is almost all profit. Conversely, if revenue falls and it fails to cover costs, profitability plummets.



Maurice Saatchi (left) and Martin Sorrell – representing the groups and the ups of advertising profits

Given that staff represent the majority – roughly 65 per cent – of an agency's costs, if revenue slides the only option is to shed staff. In the meantime the agency's other costs can spiral out of control and, as Yellowhammer has demonstrated, it can easily lurch into losses.

The biggest problem facing the industry is the threat of a collapse in the television market. The market has been weak since last autumn, but has softened significantly in the opening months of this year.

The level of expenditure on TV fell – in real terms – in January, according to estimates by Media Week magazine, and fell further in February. Another fall is expected for March.

"The television market is very, very soft," says Neil Blackley, advertising analyst at brokers James Capel. "If it gets worse the industry could be in for a lot of trouble."

The structure of the market is such that slight falls in demand are easily exaggerated. Television airtime is bought and sold according to the pre-emptive system, a "blind auction" whereby agencies bid for airtime knowing they will be "gazumped" if another bidder offers a higher price for the same spot. This means the market is very sensitive to demand. When demand is high, television rates rise. But when demand slackens, the price of airtime falls at a rapid rate.

Given that agencies tend to be paid by commission on the amount of money they spend for their clients, a fall in the price of TV airtime can lead to a reduction in the agency's income as clients cut their budgets while still buying the same amount of airtime.

There is already evidence that some clients are taking advantage of this. Retailers and travel companies have been cutting budgets since interest rates began to bite last spring. Food, drink and household products companies are now also cutting back. The only sectors to increase expenditure in the opening months of the year were financial services and newspapers.

If one company in a sector cuts back, it lessens the competitive pressure on other companies to maintain their advertising budgets. Brian Sturgess, an analyst at Barclays de Zoete Wedd, is pessimistic. He suspects the TV market could collapse and that the advertising industry is on the verge of its "worst recession since 1975".

If the market does deteriorate it is the larger agencies which would be most vulnerable since they are most exposed to television. The average agency spends less than a third of its money – just over 31 per cent – on television, but the larger agencies spend much more. The Saatchi agencies – Saatchi, BSB:Dorland and KHBB – spend 54 per cent of their money on television.

The impact on the larger agencies will, however, be mitigated by the fact that most belong to international holding companies with interests in other areas of marketing services. The WPP Group, for instance, depends on advertising for only half of its revenue.

The agencies are also cushioned by the trend towards payment by fees, rather than commission, or a combination of the two. This means that they will be less vulnerable to the fluctuations of airtime rates.

Most agencies admit that the only hope of increasing revenue this year is by winning new business. But as there is relatively little new business around many agencies are cautious about taking on extra staff to service their new accounts. "Everyone is very aware of the need for good housekeeping," says Danielle Barr, chairman of Publicis.

Lorna Tilbian, advertising analyst at Warburgs, says: "The sensible agencies have already cut costs by shedding staff in the autumn. They should be able to shelter their profits from a fall in expenditure. But there is still a lot of fat to come out."

Even the optimists in the industry do not expect conditions to improve until the fourth quarter of this year at the earliest. Many agencies suspect that they will have to wait for an improvement until early next year.

Saatchi expects a fall in revenue – in real terms – of 1.7 per cent this year followed by a possible modest increase of 2.5 per cent if the Government attempts to revitalise the economy in the approach to the next election.

"So far 1990 has been very tough," says Jeremy Sinclair, Saatchi's deputy chairman. "As for the rest of the year, it is really too soon to say what will happen."

Boots's programme to catch the shopper's eye

Maggie Urry reports on retailers' early experiences with in-shop TV advertising

On Monday this week Boots, the UK chemist chain, started a test in two of its shops of an in-store television system designed to advertise directly to customers in the shop – the point where 65 per cent of purchasing decisions are made.

The system is operated by Concourse Communications, formerly named Inno-Media, which has just appointed as chairman Paul Judge, the man who headed the management buy-out of Premier Brands from Cadbury Schweppes. He left Premier Brands a year ago when its board decided to sell out rather than float the company on the stock market.

There have already been trials in a shopping centre in Hounslow, west London, and in five Budgens grocery shops. Results from these tests suggest that advertisements on the TV screens can result in large increases in sales of particular lines.

Only 21 per cent of Budgens shoppers asked found the TV sets, which hang from the ceiling, distracting.

Ian Robinson, a marketing executive at Boots, is hoping that the TVs, being tried at stores in Peterborough, Cambridgeshire, and Bury St Edmunds, Suffolk, will provide a new vehicle for addressing customers.

He thinks an audio visual system may get the message across to customers better than leaflets and signs in the shops can. Although he has seen the results from the Budgens trial, which showed sales rises for advertised products of between 10 and 68 per cent, Boots will await the results of its own tests before deciding whether to extend the TVs to other stores.

Since Boots has electronic point of sale tills in both the shops, Robinson will be able to monitor sales of lines which are advertised and sales of similar products. Four of the five Budgens shops which tried the system did not have Epos, so its test results may not be completely accurate. Robinson says that if the TV promotions merely switch sales from one line to another then the experiment will have failed. He is looking for incremental sales.

The TVs will not only advertise products, but also other features of the shop. For example, pointing out to customers that there is a mother and baby room in the Bury St Edmunds store has already increased the use of the service. Other slots invite customers to visit the upper floors in the shops – which fewer shoppers usually reach.

Judge, with his background as a supplier, believes the system offers manufacturers a cheaper way of advertising. He says the cost of reaching 1,000 shoppers in a store through the Concourse TVs is £5.50, compared with around £8.25 per 1,000 through national television, and more in the south east of England. Further, the in-shop targets are more likely to respond to the encouragement, particularly, Judge says, on "impulse-purchase" items.

Mercedes wins in corporate identity

Alice Rawsthorn on a Europe-wide study

Corporate identity tends to be a controversial business. The launch of a company's new sign or symbol is almost always accompanied by squabbles over how much it cost and whether people like it or not.

Yet when a group of leading European executives was asked which company's corporate identity they most admired the same names – Mercedes, Nestlé, Philips and Shell – cropped up again and again.

Henrion Ludlow & Schmidt, one of London's leading corporate identity consultancies, has commissioned a study from MORI, the UK market research consultancy, to analyse European executives' attitudes to corporate identity.

The Henrion study analysed the attitudes of the chief executives or main board directors of 243 of Europe's largest companies in six areas: Austria, France, Scandinavia, Spain, the UK and West Germany. It also asked the respondents which pan-European identities they most admired.

Mercedes, the West German car company, was the winner. It came top in three of the six areas. The three-pronged Mercedes star was chosen as the best pan-European identity in West Germany, Austria and Spain. It also featured in the top ten choices of executives in the UK and Scandinavia. The only country where it did not feature was France.

Philips, the Dutch electronics group, was the only company to be included in every top ten. It was the first choice in France and second choice in Austria and Scandinavia. Nestlé, the Swiss food concern, was cited in five areas and Shell, the Anglo-Dutch oil group, in four.

Most of the chosen identities belonged to European companies. IBM was the only US group to feature significantly in the study. It was chosen as the best identity in Scandinavia and appeared in three other top tens.

An element of chauvinism was evident in the choices. The French were the only nationality to choose BSN, St Gobain and Rhone-Poulenc: all French in origin. Similarly Bayer and BASF did not appear outside West Germany. No one cited British Airways other than the British.

Almost all the chosen identities were international in that they are used across all the countries where the companies operate. Most have been used – in more or less the same form - for many years. And most of the companies concerned have been influential in defining the visual style of their industries.

Wally Olins*, who heads Wolff Olins, the London design consultancy, once described IBM as having "set the visual style the whole information technology industry followed",

while he considers that the reputation of Shell "is symbolised to quite an extraordinary extent by its name and visual imagery".

The Henrion study also analysed what the European executives considered to be the main aims of a corporate identity programme. The answers varied from country to country.

The French perceived corporate identity primarily as a tool for communicating with people outside the company, such as customers. While the West Germans and Austrians cited internal communications with their own employees, as one of its most important roles.

The British tended to align identity with marketing by associating it with advertising and corporate communications. The Spanish saw it in the abstract – expressing the culture of the company.

Yet when it came to saying whether they were satisfied with their own company's corporate identity or not, most of the respondents – regardless of nationality – said "no".

**Corporate Identity, by Wally Olins. Thames & Hudson. £16.95.*

COMPANY NOTICES

NOTICE TO THE HOLDERS OF THE OUTSTANDING

U.S.$[illegible] 2⅞% CONVERTIBLE BONDS DUE 2000 OF THE MITSUBISHI BANK, LIMITED (the "Bonds" and the "Bank" respectively)

NOTICE IS HEREBY GIVEN to the holders of the Bonds as follows:
(a) At the meeting of the Board of Directors of the Bank held on 23rd February, 1990, the resolution was adopted to issue on 21st May, 1990 new Shares by way of free distribution on the basis of 0.05 new Shares for each existing Share of the Bank held. The record date for the determination of Shareholders entitled to receive the free distribution is 31st March, 1990.
(b) Pursuant to the Terms and Conditions of the Bonds, the Conversion Price will be adjusted from the current ¥1,552.30 to ¥1,478.40 with effect as from 1st April, 1990, Tokyo time.

THE MITSUBISHI BANK, LIMITED
By: The Mitsubishi Bank, Limited London Branch as Principal Paying Agent
Dated: 15th March, 1990

U.S.$300,000,000 [illegible]% CONVERTIBLE BONDS DUE 2002 OF THE MITSUBISHI BANK, LIMITED (the "Bonds" and the "Bank" respectively)

NOTICE IS HEREBY GIVEN to the holders of the Bonds as follows:
(a) At the meeting of the Board of Directors of the Bank held on 23rd February, 1990, the resolution was adopted to issue on 21st May, 1990 new Shares by way of free distribution on the basis of 0.05 new Shares for each existing Share of the Bank held. The record date for the determination of Shareholders entitled to receive the free distribution is 31st March, 1990.
(b) Pursuant to the Terms and Conditions of the Bonds, the Conversion Price will be adjusted from the current ¥2,863.50 to ¥2,727.10 with effect as from 1st April, 1990, Tokyo time.

THE MITSUBISHI BANK, LIMITED
By: The Mitsubishi Bank, Limited London Branch as Principal Paying Agent
Dated: 15th March, 1990

U.S.$300,000,000 3½% CONVERTIBLE BONDS DUE 2004 OF THE MITSUBISHI BANK, LIMITED (the "Bonds" and the "Bank" respectively)

NOTICE IS HEREBY GIVEN to the holders of the Bonds as follows:
(a) At the meeting of the Board of Directors of the Bank held on 23rd February, 1990, the resolution was adopted to issue on 21st May, 1990 new Shares by way of free distribution on the basis of 0.05 new Shares for each existing Share of the Bank held. The record date for the determination of Shareholders entitled to receive the free distribution is 31st March, 1990.
(b) Pursuant to the Terms and Conditions of the Bonds, the Conversion Price will be adjusted from the current ¥3,266.00 to ¥3,110.50 with effect as from 1st April, 1990, Tokyo time.

THE MITSUBISHI BANK, LIMITED
By: The Mitsubishi Bank, Limited London Branch as Principal Paying Agent
Dated: 15th March, 1990

PUBLIC NOTICES

DEPARTMENT OF SOCIAL SERVICES AND HOUSING

Can you manage these services?

In response to the Children Act 1989 and the Government White Paper "Caring for People" the Council is preparing a list of individuals or companies interested in tendering for one or more of the following:

- **Day Nurseries**
  Two day nurseries which are located in Penge and Orpington, providing a high level of care to 70 children under five years of age.
- **Residential Care for Children**
  Three childrens homes which are located in Beckenham, Bromley and Orpington, providing care for 26 children aged 13+.
- **Professional Fostering**
  Setting up and managing a Foster Carers Service making available to the Council 12 family placements for difficult and disturbed children.
- **Residential Care for Elderly People**
  Seven residential homes for elderly people which are located in Bromley, Penge, Orpington and Chislehurst providing a service to 385 elderly residents in total.

INFORMATION FOR TENDERERS:
The contracts will run for five years, scheduled to start 1st November 1990.
For further information, please contact: Roger Mallett on 01-313 4010 or write to: Director of Social Services and Housing, Room 45 Bromley Town Hall, Widmore Road, Bromley, Kent BR1 1SB, by 6th April 1990.

Bromley
THE LONDON BOROUGH

LEGAL NOTICES

NOTICE TO CREDITORS TO SUBMIT CLAIMS
IN THE MATTER of [illegible] & Company Limited
and
IN THE MATTER of THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN that the creditors of the above-named company, which is being voluntarily wound up, are required, on or before the 9th day of April 1990, to send in their full christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their solicitors (if any), to the undersigned I.G. Watt of 1 Puddle Dock, Blackfriars, London EC4V 3PD the joint liquidator of the said company, and, if so required by notice in writing from the said joint liquidator, are, personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 8th day of March 1990
I G Watt
Joint Liquidator

To the Warrantholders and Convertible Bondholders of

INTEC INC.

(Kabushiki Kaisha Intec)
(Incorporated under the laws of Japan)

U.S. $35,000,000 2⅝ per cent. Guaranteed Notes due 1991 with Warrants ("Notes 1")
U.S. $100,000,000 5 per cent. Guaranteed Notes due 1993 with Warrants ("Notes 2")
U.S. $100,000,000 4⅝ per cent. Guaranteed Notes due 1993 with Warrants ("Notes 3")
NLG 75,000,000 1⅝ per cent. Guaranteed Notes due 1993 with Warrants ("Notes 4")
U.S. $50,000,000 3 per cent. Convertible Bonds 1999 ("Bonds 1")

NOTICE OF FREE DISTRIBUTION OF SHARES,
AND
ADJUSTMENT OF SUBSCRIPTION PRICES
AND
CONVERSION PRICE

Notice is hereby given that the Board of Directors of INTEC INC. (the "Company") passed a resolution on February 7, 1990 (Japan Time) authorizing a free distribution of shares of its common stock to the shareholders of the Company to be issued on May 21, 1990 (Japan Time) at the rate of 0.15 share for each one share held. The record date for the free distribution is March 31, 1990 (Japan Time).

As a result of such free distribution, the Subscription Price at which shares are issuable upon exercise of the Warrants will be adjusted pursuant to the terms and conditions of the Warrants, and the Conversion Price at which shares are issuable upon conversion of the Bonds will be adjusted pursuant to the terms and conditions of the Bonds as follows:

A) the Subscription Price of Notes 1 will be adjusted from 8,560.0 Japanese Yen to 7,443.5 Japanese Yen.
B) the Subscription Price of Notes 2 will be adjusted from 4,961.0 Japanese Yen to 4,313.9 Japanese Yen.
C) the Subscription Price of Notes 3 will be adjusted from 3,742.0 Japanese Yen to 3,253.9 Japanese Yen.
D) the Subscription Price of Notes 4 will be adjusted from 3,742.0 Japanese Yen to 3,253.9 Japanese Yen.
E) the Conversion Price of Bonds 1 will be adjusted from 4,965.8 Japanese Yen to 4,318.1 Japanese Yen.

Such adjustment of the Subscription Prices and the Conversion Price will become effective on April 1, 1990 (Japan Time).

The Industrial Bank of Japan Trust Company
and
Banque Générale du Luxembourg S.A.
on behalf of:
INTEC INC.

Dated: March 15, 1990

STC CORPORATION
(Incorporated in the Republic of Korea with limited liability)
US $ 30,000,000
1.25 per cent. Convertible Bonds Due 2004

NOTICE OF CONVERSION PRICE ADJUSTMENT
We hereby give notice to the holders of the above described bonds that, in accordance with the terms of trust deed dated 3rd January 1990, the conversion price was decreased from Korean Won 47,590 to 45,585 effective 27th February 1990. This adjustment is a result of stock dividend declaration of 231,230 shares approved by a general meeting of shareholders which was held on 27th February 1990. Bondholders should contact the Trustee for further information.

BUSINESS LAW

Legal risk involved in the swaps market

By Colin Paul

In a narrow interpretation of the statutory powers of local authorities in November 1989, the High Court ruled, in the initial hearing of the Hammersmith and Fulham Swaps case, that local authorities had no capacity to enter into swaps and derivative products.

The decision brought a segment of the swaps market to an abrupt halt. As a result of the Court of Appeal's recent decision in the case, however, it is likely that the swap market for local authorities will be resurrected, albeit, in a more cautious form.

The Court of Appeal focused on two particular considerations: first, the question of capacity, and second, the question of proper authorisation and enforceability, which may yet be the subject of further proceedings. Its decision points the way ahead for dealing with swaps counterparties which are local authorities.

The Court concluded that "interest rate risk management is fairly to be regarded as incidental to or consequential upon a local authority's powers of borrowing and investment and the attendant duty resting upon it to take reasonable care to manage its borrowings and investments prudently in the best interests of the ratepayers and those for whom the authority provides services."

It also found that the statutory provisions regarding borrowing and lending are not inconsistent with a local authority being able to enter into swap transactions as part of its interest rate risk management.

Conversely, it ruled, and indeed it was accepted by the banks involved in the case, that a local authority is not empowered to carry on a trade or business. Thus, it cannot enter into interest rate swaps and related transactions if the object is to apply the profits which it hopes to earn (for example, fee income or interest rate spreads) in reducing its cost of borrowings. Local authorities may hedge debt or investment risks but may not speculate.

The capacity of a local authority to enter into swap transactions is determined by the purpose for which the transaction is entered into. If it is for interest rate risk management, it is permissible. But if it is for trading, it is not permissible.

The Appeal Court attached importance to a clear linkage between a swap transaction and particular debts or investments if the transaction was not to be regarded as speculative trading. The purpose and commercial effect of an interest rate swap would be to substitute for one type of cash flow (eg, floating rate interest), in respect of a debt or investment, a different type of cash flow (eg, fixed rate interest).

To demonstrate that a transaction has been entered into for interest rate risk management, a local authority should, in the Court's view, make a detailed analysis of some, if not all, of the following factors: the interest due to be made or received; the losses which the authority might suffer; the risk of those losses actually occurring; or the steps which may be taken to mitigate or secure protection against those losses.

Its decision to take appropriate risk management action in the light of this analysis must relate to the local authority's actual debts and investments whether taken singly or as a whole.

The Court endorsed a narrow definition of interest rate risk management based on the clear linkage between the swap transaction and particular debts or investments. It did not express a view on whether interest rate risk management could include altering the overall profile of a local authority's loan portfolio by entering into swaps or derivative products which were not relating to any particular debt or investments.

Where (as was often the case with Hammersmith) an authority did not intend to hedge a particular risk but acted as an intermediary and entered into swaps with a view merely to obtaining a turn, such transactions were not entered into by way of interest rate risk management but for trading. Intermediation is trading and outside the capacity of an authority.

The Court also considered whether the sale of swaps options, gilt options and other interest payment limitation techniques such as cash options, caps, floors and collars were even capable of being used by a local authority by way of interest rate risk management.

It decided that there may be legitimate circumstances in which a local authority may acquire such options. If that is the case, it follows that there may be circumstances in which such options might be sold. The crucial test is whether the transaction is being used for interest rate risk management of specific debts or for investments.

In the immediate aftermath of the Court of Appeal's decision, prudence will dictate that due attention is paid by the banks to the assessment of legal risk as well as credit risk in relation to their swap counterparties.

A bank's counterparties fall into two basic categories. The first is made up mainly of other financial institutions who, by virtue of operating a swaps desk, hold themselves out as having the capacity (and indeed as having authorised their dealers) to transact business in the market. The other category of counterparties covers those who enter into transactions specifically in relation to managing their loan or debt portfolio or interest rate risk.

This category may be made up of sovereigns, corporates, international organisations, unincorporated bodies, such as building societies, local authorities, quasi-governmental bodies and partnerships.

A securities house or financial institution authorised to carry on investment business in swaps under the Financial Services Act 1986 is required properly to categorise its customers and indeed to determine whether a Self Regulating Organisation Bank of England will regulate the transactions. Compliance manuals should also now require the proper categorisation of swap counterparties.

Before commencing dealings with a counterparty in the first category, an International Swaps Dealers Association Interest and Currency Exchange Agreement (an "ISDA Agreement") will normally be prepared to enable dealings to take place on a confirmation basis. This process should not delay the parties and can, if necessary, be completed within 24 hours.

A counterparty in the second category should, in accordance with the relevant schedule of the ISDA Agreement, provide the bank with its constitutional documents and copies of any statutory and enabling powers, as well as evidence that it has authorised the transaction and the due execution and delivery of the documentation.

Where an entity's capacity to enter into a transaction is qualified, as in the case of English local authorities, to particular types of transactions, it will be necessary for the counterparty to provide evidence that the specific transaction will fall within a relevant category.

In the case of local authorities, it will be necessary for them to specify in the documentation, specific debts or investments to which the transaction is linked. This should protect the banks against claims of ultra vires and follows the government's advice in an analogous case where the question of whether forward foreign exchange transactions are regulated under the Financial Services Act, as futures may depend on the counterparty's intentions.

In the longer term, there are calls for legislative action to be taken in order to clarify the powers of local authorities to engage in swaps. An appropriate precedent would be the Building Societies Act 1986 which gives building societies specific powers to enter into hedging transactions.

A bank dealing in good faith with a local authority would still need to observe its due diligence to ensure that the transaction was within the local authority's capacity: but, this would make life easier.

Even without legislation, the banks should be able to address legal risk in an adequate and timely fashion that will not hinder normal dealings in the market-place. The banks need to recognise that they should take appropriate steps to manage their legal risk in a prudent and professional manner, and accept that the consequences of the failure to address legal risk will be expensive write-offs and large legal bills.

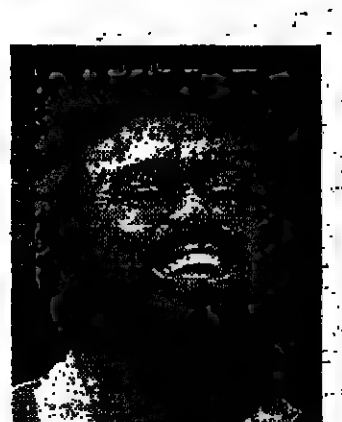
The introduction of suitable legislation would help to restore the loss of confidence that the swap market has suffered as a result of the Hammersmith case.

The author is from S J Berwin & Co

L'elisir d'amore

COVENT GARDEN

A very happy evening with Donizetti on Tuesday: thanks not least to the conductor Marcello Panni, whose expertly light touch secured everything required except unanimous ensembles. (Perhaps the on-stage village band in the last act, wildly at odds with the orchestra, was an intended joke.) The John Copley production *is long-established*, and the charms of Beni Montresor's aqueous colours are undimmed. Really there were no risks to be run, for the principals are all familiar; if Luciano Pavarotti hasn't in fact sung *L'elisir* here before, Daniela Mazzucato – who has – is his regular partner in the opera.



Alastair Muir

Luciano Pavarotti

Pavarotti was in splendid form, and not only vocally. The voice rang out triumphantly on call; his clean technique in rapid passages was a model; he made everything expected of "Una furtiva lagrima." But the trimming-down of his size turns out not to be a publicity-myth – in his amiable, bear-like way, he *made a disarmingly* plausible, if unconventional, simpleton-swain. We were all worried about his knees, of course; but he managed a cautious stagger about the stage which served equally well for being distractedly love-lorn and for being drunk. He cradled the elixir-bottle constantly to his beard like a portable 'phone.

He radiated waves of open-*hearted personality, and he* played delightfully to Miss Mazzucato. The artful gleam of her Adina is perhaps almost too polished, though her *morbidezza* is a thing of joy; and yet the extreme contrast between her ultra-calculated effects and Pavarotti's defenceless shamble actually enhanced them both. There is no substitute *for* well-practised, non-competitive partnerships in opera, and this pair is living proof of it.

Again we had the venerable Rolando Panerai as the quack Dulcamara, often boasting a stentorian sound which belied his years, and presenting the con-man dandy with authoritative panache. His duet with Pavarotti was one of the great pleasures of the evening, and the duet with Adina was another. Ingvar Wixell strutted again as Nemorino's rival, Sergeant Belcore, only beta-ish in quick *buffo* patter but otherwise impeccably crisp and lively. He suggests a knowing, complicated character beyond the robot, with actorly skill. The Giannetta was prettily done by Judith Howarth, and will improve out of recognition when she learns to uncover her Italian vowels. All in all, those *who have been able to dig* very deeply into their pockets to hear this *Elisir* are not going to be disappointed.

David Murray

Flare Path

BIRMINGHAM REP

Reviving Rattigan's Flare Path 48 years after it was first produced is rather like taking a Wimpey bomber out of the Air Force museum and trying to fly it. The dear old kite still just about taxis onto the runway, but it needs a terrific amount of throttle before she is airborne, and then after a couple of circuits it is touch and go until she limps home on a wing and a prayer.

The main problem at Birmingham is the huge arena stage of the Rep. The setting, a wartime pub in Lincolnshire within earshot of an airfield is suggested by furnishings that are dwarfed by the space above them. *This vast background* area is occupied by a backcloth of an artist's impression of a bomber by moonlight. In the middle of act two a flight of bombers crewed by the characters take off on a mission to Germany; at this point the the painting turns into solid-looking aircraft which fly straight at the audience along the flare path which lights up on stage. Apart from the fact that they seem to be going in the wrong direction, away from rather than into the vanishing perspective, this is a splendid piece of realism for which the director John Adams gets full marks.

But they are about the only merit marks he does get. The rest of the play begs for a kind of domestic realism which is missed by miles – from the women's hairstyles and make-up to the unconvincing way most of the lines are spoken. Excerpts from Britten's War Requiem don't help much either. What we needed was something like "Run, Rabbit Run."

Rattigan used the Resident's *Lounge to give us a touchingly* sentimental group portrait of wartime Britain's finest hour. Among its inhabitants are an assorted collection of aircrew members and their wives in whom the common enemy across the Channel alternates with the the enemy within the heart compelling private capitulations and betrayals. But only Adrienne Posta makes a really believable individual out of her role. She is the common barmaid now married to a Polish count (Jon Cartwright). His last-minute reappearance after being presumed dead brings the play to a joyously tearful close. The more upmarket couple, Andrew Castell's 24-year-old *Flight* Lieutenant and his actress wife (Judi Bowker) allow them to steal the limelight, and the Cockney pair, Sergeant Miller (Ron Webster) and his missus (Deborah Watling), don't get as many laughs as they should.

Rattigan takes as his catalyst a British born Hollywood movie-star, who is pursuing the Flight-Lieutenant's wife, his former mistress. It was an *unrewarding* role *at the best of* times and Nicky Henson seemed to find it so this time. For those of his who think that Rattigan's plays are grossly undervalued by the subsidised companies who so rarely revive any of them this production will, for all its defects, be welcomed but it seems unlikely to convert the army of doubters.

Anthony Curtis

Births, Marriages and Deaths

NUFFIELD, SOUTHAMPTON

Where are the rebel students of yesteryear? And what were they then? Neat idea for a two-acter. Act 1 of *Births, Marriages and Deaths*, a new play written and directed by by Nigel Baldwin, is *1973*; *act 2* is Now. Neat for a TV series too. The play has been commissioned by TVS and Tyne Tees Television (in association with the Northern Stage Company and the Nuffield Theatre, Southampton); it will in due course be shown in several episodes.

In '73, five left-wing journalism students discover student politics, a radical revue, promiscuity, adultery, a sugar bomb on the head's desk, and treachery. In Now they discover the past, with its large questions: Whose child? Whose bomb? Whose treachery?

Act 1 is such an inventory of *1973 detail* – music, politics, nascent sixties nostalgia, cannabis, easy sex – that it overshadows the plot. There are some surprisingly operatic farce touches, as when one guilty character is secreted in a cupboard (*Figaro*) and then in a laundry basket (*Falstaff*); *and a quartet of quarrelling* lovers. The point of all these contrivances, of course, is irony. For this is not comic opera or Brian Rix farce. One character has become pregnant; another is expelled. Act 1 is a diagram that hasn't been fully fleshed out. We could believe that Mary McCarthy's eightsome were "The Group." We can't believe that Baldwin's students would really call themselves "The Famous Five."

Birth and marriage occur between these acts; no deaths. Act 2, being Now, is less full of authentic period detail. And it has the boon of a new character – the teenage child. When his mother yells "I won't tell you again – switch that bloody music down," it's the play's wittiest twist, for what is he blasting them with? Not acid rock, but Pavarotti in "Pourquoi me réveiller." The adolescent misery and confusion of Joe Caffrey as this boy Lee gives this production its most real, its most affecting point.

Much else is predictable. The "Famous Five" have now moved along dissimilar paths. They *finally* work *out who did* what to whom 17 years ago. Learning brings comfort, if not always sweetness. All this may turn into very cosy TV one day, but, as one who went to university in 1973, I must observe that the present and past of *Births, Marriages and Deaths* are too fancifully interleaved, and the drama too glib. The smoothy gets his comeuppance; the cripple becomes heroic. That'll be the day.

Alastair Macaulay

CINEMA

White Rabbit goes down under

CELIA
Ann Turner

A CITY OF SADNESS
Hou Hsiao-Hsien

A WEEKEND AT BERNIE'S
Ted Kotcheff

THE CONQUEST OF THE SOUTH POLE
Gillies McKinnon

ENCOUNTER AT RAVEN'S GATE
Rolf De Heer

Celia, a wonderful first feature by Australian writer-director Ann Turner, proves that a feather duster can be more effective than a shotgun in dislodging truths about the political past.

Roosting in the rafters of history are two dotty, little-sung facts about life in 1950s Victoria. One: that the postwar anti-Communist scare had floated over from McCarthyite America. Two: that in 1957 there was a plague of rabbits resulting in a state-wide, Government-ordained cull. Film-maker Turner tickles these facts out of hiding, rhymes them mischievously with each other in a tale of human and animal persecution, and uses their motifs to populate her tragicomic tale of a girl's growing up in leafiest suburbia.

In a movie era like today's that is knotty with retrospection, as films like *Fellow Traveller* and *Shadow Makers* try to unpick truths about the twin bugaboos of postwar life, Communism and the Bomb, the featherweight allegorising of *Celia* succeeds where more self-important films have failed. The main reason is its heroine. As played by Rebecca Smart, Celia is a rivetingly credible blend of cruelty and kindness, innocence and precocity.

Like Lewis Carroll's famous heroine ("Celia" is an anagram of "Alice"), Turner's whey-faced 9-year-old has a formative relationship with a white rabbit. Recovering from the death of her eccentric, Marxist-sympathising Grandma, Celia insists that her parents stump up the birthday rabbit Granny once promised her. Finally she gets it: but only as an bribe aimed at keeping her away from the nextdoor children *whose parents (shock horror) are suspected* Communists.

Over two hours, supervised by the shade of Lewis Carroll, the world of sweet suburban childhood turns into the world of *Lord Of The Flies*. Fuelled by the adult paranoia all around her, Celia has daytime hallucinations of picture-book monsters (the "Hobyahs"); she enjoys voodoo ceremonies with her playmates in an abandoned quarry; she screams with rage when her pet Murgatroyd is dragged off during the myxamatosis-induced rabbit muster; and she finally shoots dead (by design or in delirium) a close relative.

Turner films all this with a poker-faced lyricism pixillated with moments of high Gothic. (The woods breathe and shudder; a slimy hand gropes over a window sill.) Though excelling at the deadpan black comedy that other Australian film-makers have found in their country's social or ecological crusades (see *Cane Toads*), *Celia* extends the particular into the resonant – for rabbit cull read Communist witch-hunt – and moves beyond satire into a fully-dimensioned human comedy. We believe both in Alice, with her bright-eyed alertness to the world's weird happenings, and in her harassed, un-caricatured elders.

Rebecca Smart as "Celia" with Murgatroyd the rabbit

The latter, keeping their backyards safe for democracy while constantly dragging their kids back from the brink of delinquency, are you, me and everyone. Brainwashed by the political mood of the day, they subscribe to a climate of ideological persecution without even *recognising that climate. The only* person to recognise and resist it, or its nursery version involving rabbits rather than political renegades, is the child. And she – once she learns her own pet's fate – hops off into her own darkening private world, the worse not the better for her wisdom.

★

In the majestic Taiwanese film *City Of Sadness*, Golden Lion winner at last years' Venice film festival, another family tries to keep its balance while political winds blow around it. Years: 1945-47. Events: the struggle for control of Taiwan, after Japan's defeat, between the Chinese Communists and the Nationalists. Perspective: the lives and viewpoints of three brothers in a Taipei family and their multitudinous friends and relatives.

Director Hou Hsiao-Hsien, whose career has shinned up the ladder of aesthetic ambition from the gem-like human comedy of *A Summer At Granda's* to the autobiographical sweep of *The Time To Live And The Time To Die*, here climbs so high he finds the vista almost too giddying. The aerial viewpoint means that few characters come into fully human focus, and even the brothers – one a nightclub manager and shipping company owner, another a drug hoodlum, the youngest a deaf-mute photographer – are sketched in broad, simple strokes of (respectively) pragmatism, opportunism and sweet-naturedness.

Meanwhile the rest of the cast is so hydra-headed that each time one character is lopped off by the troubles of history, two or three more seem to grow. Hold on to your sanity and mental arithmetic for lines like "Fourth uncle, they've arrested third uncle."

Yet the movie, at a sprawling 158 minutes, captures better than almost any other "family at war" epic the sense of fate and history punching at the frail protective skin of family solidarity. Scenes are framed by an ever-versatile "proscenium" – doors, curtains, partitions – as if humanity's private sanctums were forever poised in anxious anticipation that the world of public events will burst in. And the formal style (the camera scarcely moves) keeps sentimentality at bay even in potentially kleenex-intensive scenes like that of the deaf-mute brother and his girlfriend romancing each other with written notes as "Traumerei" sounds on the gramophone.

The movie is transformed time and again by Hsiao-Hsien's epic miniaturism. Shots are composed with a jeweller's-glass precision. Tiny parallel dramas unfold in the corner of each frame. And even when passion or grief explode – a knife fight, news of a bereavement – the artist keeps his distance, never judging, never joining, always all-seeing and compassionate.

Elsewhere this week we move, with fearful jolt, from the sublime to the ridiculous.

How much fun can you have with a dead body? This question is posed by *Weekend At Bernie's*, a comedy about a corpse. Two insurance yuppies (Andrew McCarthy and Jonathan Silverman) earn a weekend at their boss's Long Island beach house after exposing a $2m "slip-up" in the annual accounts. But what do they find on arrival? No host. Or rather a dead one, slain by poison or poisons unknown. Will our heroes call the police? No. Not before they have had their promised weekend of fun. So, manoeuvring the boss's corpse into ever-inventive postures, they pretend to all comers that "Bernie" is still alive.

With morals like this among the young, who is surprised by the decline of Western civilisation? The film *unspools, or rather unravels*, with a distasteful witlessness that boggles the mind. Given more comic invention, one might have pensioned off one's moral qualms. But, as written by Robert Klane and directed by Ted *(Switching Channels)* Kotcheff, the film consists of little but loudhailed slapstick and misunderstandings, interspersed with punch-ups with passing villains. Near the end one giggles gratefully at one genuinely funny scene: when poor Bernie, dragged for reasons unexplainable behind a slaloming power-boat, rings the bells on marker-buoys as he thumps each one in turn. Here bad taste o'erleaps itself and becomes high farce. But it is somewhat too little and far too late.

★

The week's other resistible treats are *The Conquest Of The South Pole* and *Encounter At Raven's Gate*. In the first, director Gillies McKinnon films Manfred Karge's play about five jobless youths enacting in fantasy Amundsen's polar adventure. Leith, the port of Edinburgh, stands in for the Antarctic – *white sheets on a clothes-line as glaciers*, mounds of ship-chains as creviced mountains – while the dialogue wallops us with industrial-strength metaphor. It is more theatre than cinema, and the cast act as if belting it out at Oberammergau rather than moderating matters for the movie camera. *Encounter At Raven's Gate*, directed by Rolf De Heer, is an interestingly insane sci-fi film from the Antipodes. Somewhere out in the desert, paranormal forces are jamming car radios, igniting farms and causing large numbers of the Australian population to overact. None of this has any scientific explanation in the film, unless I blinked and missed it. But it is fun while it lasts.

Nigel Andrews

Currulao

SADLER'S WELLS

To commemorate the fact that it was the Rambert troupe in its earliest days that gave Frederick Ashton an initial chance to make dances, an endowment fund has been set up in his name to enable a new creator each year to produce a piece for the present company. This laudable enterprise showed its first fruit on Tuesday night when Ashley Page's *Currulao* had its première.

It would be good to salute this launch of the scheme as a wild success. Alas, the case is other. The Currulao of the title is "a Columbian courtship dance of mixed Spanish and African origin," but what we see is a galvanic fashion parade of tedious modishness – dress as barrier to seeing, clothes as mania, couture as caprice.

The involvement of *dress-designers in ballet* is always a chancy business. It can succeed wonderfully – Dior and Yves Saint Laurent making clothes for Roland Petit – or utterly obliterate choreography, as when Christian Lacroix was allowed to wreak mayhem on Massine's *Gaite Parisienne*. The key to success has to do with the designer's willingness to accept that movement will dictate shape and cut, and that the choreographic text has to be illuminated rather than obliterated by what is worn.

When Victor Edelstein dressed Richard Alston's *Rhapsody in Blue* a couple of years ago, the elegance of the piece owed much to the *designer's wit and savoir faire* in this matter. In choosing John Galliano to clothe *Currulao*, Ashley Page perhaps sought a street-wise image in dress to go with choreography intended as a light-hearted view of young people meeting and mating in warmer climes than ours. But Mr Galliano's outfits have the extravagance of today's youth fashion without any theatrical they remain obstinately the "civvies" from the catwalk rather than a translation into even half-way convincing dance dress.

The dominant colours are black and white, the outlines brutish. There are the somewhat dated accessories of *mittens, clunky shoes, for the* girls (and hideous wigs), while three of the men are got up as for football. Chinstraps abound, and Gary Lambert makes a notable entry wearing sequinned boxer shorts. It is vehemently foolish as stage costume, and does little to establish a location or a context for the dance. For that we turn to Orlando Gough's pastiche South American score, music that sounds brash, and edgy in rhythm. But it lacks the felicities of Astor Piazzolla's tangos, or even the quick-pulsed and insidious charm of the continent's folk music.

Ashley Page's response to all this is a sequence of dances having a disjunct and oddly impersonal, unauthentic air. Incidents occur, dancers meet and pass, but beyond marvelling at the fatuity of the dress, I retain no strong sense of choreographic form, or of the tightly wrought energies that make his *Soldat* and *Carmen Arcadiae* for Rambert and *Pursuit* for the Royal Ballet so rewarding to watch.

Clement Crisp

ARTS GUIDE

March 9-15

EXHIBITIONS

London

The Tate Gallery. The entire permanent collection has been rehung so that the visitor may now take a natural circuit through the newly restored galleries, from 16th century British painting through to the the most recent of modern international art. It is a curatorial triumph.

The Barbican. Scottish Art Since 1900. Daily until April 16.

The Royal Academy. Frans Hals – the great retrospective, already shown in Washington and due to go on to Haarlem, of the work of one of the greatest painters of the 17th century Dutch school. Until April 8.

Paris

Grand Palais. Soliman Le Magnifique. A treasure trove of goldsmiths' work, miniatures, ceramics and textiles recalls the splendour of the reign of Soliman "the shadow of god on earth", whose Ottoman Empire stretched in the 16th century from the Caucasus to the gates of Vienna and from Algeria to the Persian Gulf. Closed Tue, Wed late closing, *ends May 14 (42895410)*.

Institut du Monde Arabe. Egypt-Egypt. An exhibition of 25 chef-d'oeuvres, including the most recent finds, starts with statues and bas-reliefs dating from the middle-empire, continues with a golden crown of a high priest of Osiris with some elements of Roman art and Coptic icons and concludes with Islamic exhibits. 1, rue des Fosses-Saint-Bernard (closed Mon). Ends March 18 (40513838).

Musee d'Orsay. The Fragmented Body. Parts of the human body, or the incomplete body form the leading strand of an exhibition beginning with ex-votos and reliquaries and culminating ina celebration of Degas, Bourdelle, Maillol and especially of Rodin with his masterly transition from realistic to abstract sculpture. Ends June 3, closed Mon, entrance Quai Anatole France (40494814).

Centre Georges Pompidou. Pavel Nikolaievitch Filonov. A solitary figure of the Russian *avant-garde, he refutes cubism* and futurism as contrary to nature's – and art's – organic development. "Every atom" of the surface of the 50 paintings and 150 drawings is given intense attention and basks in the light *of* idyllic harmony in cruel contrast to his own destiny. Closed Tue, ends April 30 (42771233).

Musee Carnavalet. Antique bronzes. Closed Mon, ends July 1 (42722113).

Brussels

Archives Générale du Royaume, Grand Sablon, commemorates Belgium's short-lived declaration of independence from the Austrian Empire and the subsequent power struggle between France *and Austria for control of* Belgium. Daily, closed Sunday, ends 31 March.

Musees Royaux D'Art et D'Histoire. The Enigma of the Easter Islands is partially deciphered in this exhibition of photographs and artifacts. Closed *Monday* ends April 29.

Antwerp

Koninklijk Museum voor Schone Kunsten. Belgian Painters of Country Life. Closed Monday, ends April 2l.

Provincial Museum Voor Fotographie. Works of the British 19th century photographer William Henry Fox Talbot. Closed Monday ends April 1.

Venice

Palazzo Grassi. Andy Warhol Retrospective. Until May 27.

Milan

Castello Sforzesco. Henry Moore retrospective: 49 sculptures cov*ering* the years 1938-1983, the larger of which are seen to excellent effect in the courtyard of the 15th century castle, while the smaller bronzes, preparatory studies and drawings are shown inside, in the beautifully lit Sala Viscontea. Ends March 25.

Rome

Villa Medici. Self portraits from the Uffizi – from Andrea del Sartoto Chagall. Thirty works from the collection started by Cardinal Leopoldo de Medici in the 17th century, marking changes in style and taste over 300 years. Particularly interesting is the fierce and uncompromising self-portrait painted by Ingres in 1858. Until April 15.

Madrid

Centro de Arte Reina Sofia. Antonio Saura. 70 works by the Spanish artist painted between 1958 and 1985. The exhibition focuses on four themes: Ladies, Crucifixions, Goya's dogs and Multitudes. Ends March 19.

Fundacion Juan March. Ian Woodner collection of works by Odilon Redon. A very complete exhibition consisting of some 100 works in various media, illustrating the different aspects of the French symbolist painter's work. Ends April 1.

Museo del Prado. Following the highly successful Velazquez exhibition at the Metropolitan, the Prado is now host to the largest show to date of works by the great 17th century artist. Ends March 15.

Barcelona

Palacio Tinel. Baroque Painting in the Mediterranean. The Italo-Spanish festival brings together sixty 17th century works belonging to Spain and Italy. Velazquez, Murillo, Rubens, Van Dyck, Claudio Coello, Testa, Cavallino are but some of the great artists whose works can be admired. Ends March 30.

Museo Picasso. Cubist works belonging to the National Galleryof Prague - Kramar Collection. The show includes 17 paintings by Picasso together with an important selection of works by Czech and French artists. Ends April 29.

Berlin

Staatliche Kunsthalle, Budapester Strasse 42: Lasar Segall (1891-1957) around 350 paintings, drawings, sculptures and graphics of the Brasilian painter, born in Wilna, are to be exhibited until April 20.

Mainz

Landesmuseum. Marc Chagall (1889-1985), who died in 1985 was one of the most polular artists of the 20th century. Around 106 of this works, not shown in public before are to be only seen in Mainz until April 22. The gouaches, water-colours, pastels and paintings present themes of the old testament.

Vienna

Kunstforum. Works by the Romantics, ranging from Caspar David Friedrich to Adolph Menzel.

Museum fuer Volkerkunde has a marvellously exotic exhibition called Jemen, focusing on the world around the Queen of Sheba. Ends June 10.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. Ends Sept 15.

Centre for International Contemporary Arts. Large-scale works in pastel and compressed charcoal by 81-year-old British artist David Oliphant, is the first of a series of four shows of young British artists slated for this new, well-received arts institution. Ends April 21.

Museum of Modern Art. In its serious, thorough way the museum gives its version of the history of photography, showing off earlier image-developing techniques along with 275 photographs. Ends May 29.

Washington

National Gallery. Highlighting this decade's renewed interest in printmaking in America, the 100 prints comprise a special exhibit borrowed from the collection of Joshua P. Smith, among them works from major contemporary artists including Jasper Johns, Richard Diebenkorn and Alex Katz. Ends April 8.

Chicago

Chicago Historical Society. The Land of Lincoln does its most famous citizen proud in the exhibition A House Divided: America in the Age of Lincoln, with documents, mementoes and personal effects of the Great Emancipator.

Art Institute. Yoruba art covering 900 years is the subject of this ambitious exhibition, which traces the Nigerian tribe's views of the origins of the universe in the 12th century to the carvings of contemporary artist Olowe of Ise. *Ends April 1.*

Tokyo

Teien Museum. German Romantics. Loan exhibition from Dusseldorf – stronger on mid-19th century academic painters than on visionaries such as Friedrich and Bocklin. This museum is a former palace and has a superb art deco interior and a pleasant garden for strolling in. Closed Wednesday.

Idemitsu Museum. Ceramics of Japan. Second part of a comprehensive exhibition devoted to major pieces from the museum's own vast collection.

Japan Folk Crafts Museum. Woodblock prints by Shiko Munakata, a pioneer of the arts and crafts movement in Japan. The museum, in old farmhouse buildings, is a treasure-house of the traditional arts. Closed Tuesday.

Italienisches Liederbuch

WIGMORE HALL/ST JOHN'S, SMITH SQUARE

In the days of the Hugo Wolf Society record albums admirers of the composer's songs were glad to have a single performance of the *Italienisches Liederbuch* to hand. How incredulous would they have been, one wonders, if somebody had told them that a few decades later it would be possible to hear two virtually complete live performances of the work in London in a week?

Yet this has just been the case. Now that recordings have made it possible for us to absorb the pieces at our leisure, a concentrated collection of short, intense songs such as these no longer seems daunting. If a fine Lieder singer is available, Wolf's songs can be as rewarding as any and it is no coincidence that in these two performances it was when François Le Roux was singing, at the Wigmore Hall on Tuesday, that the emotional power of the music was unlocked.

This marvellous French baritone has one major advantage over his colleagues – quite simply, a voice that is first class. In theory that *should not* perhaps matter in Wolf. But it does mean that Le Roux has a range of colours and expression that will allow him to do justice to all the extreme Italianate emotions that the songs explore. From blazing fury to deep religious peace, all were convincing, and especially his seductive singing of the love songs, more sensuous by far than we would ever hear from most *singers of* Lieder (a Frenchman's prerogative?).

By his side the soprano Anna Steiger was apt to sound vocally shallow and a touch strained at times. Nor are her words as audible, but she does have a clear idea as to what she wants the music to say. The dramatic and comic songs often went well, accompanied with insight and no mean technical skill by Roger Vignoles.

★

In the performance at St John's, Smith Square last Thursday Iain Burnside despatched the piano parts in a more simply decisive manner. Nevertheless he was to prove the dominant personality of the evening, as his two singers failed to bring to life any but the most obviously characterised songs. The soprano Lynda Russell was careful and musical, the baritone Richard Jackson unhelpfully subdued and sounding constricted at the top of the voice. *Perhaps the hall* was just too large and too empty. These songs thrive on immediacy of impact and here the punch was landed all too rarely.

Richard Fairman

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Inflation and investment

HOWEVER modest it may appear, the resurgence of inflation is causing significant damage to the UK economy. Indeed, in one important case, taxation of corporations, the Government appears to face a dilemma: its ability to reduce the costs imposed by inflation is severely limited by its desire to reduce inflation itself.

Perhaps because of euphoria over the early success in lowering *inflation, Mr Nigel Lawson* allowed his major reform of the system of corporation tax in 1984 to leave the corporate sector vulnerable to inflation. The source of the vulnerability is – as has been pointed out by the Institute for Fiscal Studies on several occasions – that corporation tax taxes profits at historic cost. Consequently, the effective rate of tax depends on the rate of inflation.

Thus, *a large* increase in the nominal value of stocks may occur solely because of inflation. Similarly, the failure to index capital allowances means that the real cost of investment is not properly deducted whenever there is inflation. Finally, relief should be given for real, not nominal, interest payments. The failure to make this adjustment does, however, offset the other two, *because the inflation element* in nominal interest is really debt repayment.

Reported profits

The overall effect of the failure to allow for inflation is to increase reported over real profits. According to a recent study from the economics consultants, London Economics, even in the relatively low inflation 1980s the historic cost rate of profit has been at least 10 percentage points higher than the real rate of profit. Similarly, the interaction of the 1984 reforms with current levels of inflation and rates of interest pushed the real cost of capital up to 10 per cent in 1989. This is two percentage points above the rate that would apply without corporate taxation and three percentage points higher than in the previous peak of 1981.

With the real cost of capital at these levels and profitability beginning to slide as well, investment will certainly fall too. In the course of 1989 the decline in the real profitability of industrial and commercial companies, though noticeable, was modest. But the increase in corporate borrowing was not at all modest. In fact, it almost doubled – from £12.2bn to £23.6bn – between the second and third quarters. This increase is unlikely to prove sustainable. If it proves unsustainable, investment will be among the first forms of expenditure to be reduced.

Sustaining investment

In its submission on the Budget, the Confederation of British Industry notes the desirability of sustaining investment and the risk that it will fall, just when it is bounding ahead in Europe. The CBI's case is strong. Given the penalisation of investment in the supposedly reformed corporate tax system and the desirability of sustaining investment as well, *reform is a high priority.*

There are many possibilities, from the relatively modest – the re-introduction of stock relief – to the radical – the full indexation of the tax base. The latter is the most desirable change, but stock relief or an increase in first year capital allowances would both be defensible as ad hoc ways of offsetting the vulnerability of the system to inflation.

The Chancellor is likely to resist the idea of change. A bad reason for that resistance is the view that allowing for inflation legitimises inflationary expectations. This is the reverse of the truth. The credibility of Government protestations of counterinflationary zeal will always be modest so long as it remains one of the main beneficiaries of inflation.

A better argument for not reducing the costs imposed by inflation is that, in the case of the corporate sector anything that lowers those costs, will reduce its incentive to curb its own inflationary behaviour. The current squeeze on the corporate sector is, it is argued, precisely what is needed to lower inflation.

The argument is unpersuasive. The right way to discipline inflationary behaviour is through a firm exchange rate and tight control over demand. To squeeze corporations through a distorted tax system as well is to add unnecessary insult to injury. Changes to the system of corporation tax are needed. Failures of macroeconomic policy do not justify not making them.

Devolution in arts funding

THE MINISTER for the Arts, Mr Richard Luce, has announced a radical shake-up in the organisation of arts funding in England which greatly reduces the role of the *Arts Council and threatens its existence.*

From April 1993, most arts companies, including sizeable organisations such as the City of Birmingham Symphony Orchestra and Opera North which receive more than £1m a year in subsidy, will become clients of their Regional Arts Associations (RAAs), to be renamed Regional Arts Boards.

They will no longer be directly tied to the Arts Council in London.

The Arts Council's direct responsibilities will be confined to funding the four flagship companies – the Royal Opera House, Royal Shakespeare Company, Royal National Theatre and English National Opera – together with London's South Bank arts complex. It will retain control of strategy, touring, training and other incidentals and continue to function as the "voice of the arts."

But its dominant role, and the larger part of the £175m it has to distribute in 1990-91, will be taken out of its hands.

This is a major amendment to the Arts Council's role.

It is refreshing to see a move towards genuine devolution from a government with strong centralising tendencies.

Moreover, despite the presence on the Arts Council of some well-known Conservative supporters, the change is remarkably in line with Labour Party thinking.

Mr Luce, who is now the UK's longest-serving arts minister, can properly argue that he is responding to such traditional Conservative principles as reducing waste and improving accountability.

Regional power

The old funding system allowed too many bureaucrats to flourish in both the Arts Council and among the regional bodies; there was an overlap of responsibilities.

The RAAs appear to have shaken off their traditional image of inefficiency, small-mindedness and political bias.

They are now well placed to assume more power on the lines of regional health authorities. To justify action, Mr Luce appointed a retired civil servant, Mr Richard Wilding, to *investigate the structure of the* arts in England and this week's reforms are a reaction to the Wilding report.

But to a great extent he has ignored Mr Wilding's proposals – especially those that recommended that the 12 RAAs should become seven and that the Crafts Council should be merged with the Arts Council.

Job losses

Mr Luce has only axed the two smallest RAAs – Merseyside, and Lincolnshire and Humberside – and he has, correctly, preserved the Crafts Council. But he has used the report to trim the Arts Council which will suffer job losses.

The Arts Council is putting on a brave face to the changes.

It points out that it will still have a strategic role; that it will still hand over the money to the new RABs; and that it will retain some responsibility for artistic standards.

There is much to be argued over in the next three years, notably the question of which arts companies will continue to be funded by the Arts Council and what exactly will be its powers to enforce quality controls and eliminate waste in the regions.

Should the Greater London Arts Board, for example, be responsible for the funding of the four London-based orchestras and such peripatetic organisations as English National Ballet?

Can local councillors, themselves big paymasters of the arts, refrain from exerting political pressure on the regional boards?

However, the trend is unmistakeable. In the name of devolution, local accountability and cost savings, Mr Luce has taken the sensible decision to trim down the Arts Council a couple of sizes.

This would make its abolition by a Labour government a less painful procedure.

Before that possibility arises, there will be a chance to reconsider the best system for government funding of the arts.

ECONOMIC VIEWPOINT

Before the Budget

By Samuel Brittan

The jump in retail sales in the three months to last February has shown how difficult it is to push the British economy into recession, however hard the Treasury tries.

Since the middle of 1988 the object of policy *has been* to slow down the growth of domestic demand. Yet it has taken more severe policies imposed for longer than most forecasters predicted to slow down demand by less than expected. Inflation and the payments deficit, but also real output, have all been higher than expected.

The National Income figures, published tomorrow, will contain more comprehensive estimates of all consumer spending in the fourth quarter of last year. We already know that car sales, especially to the personal buyer, have been declining; and today's unemployment figures should add a further gloss. But it is doubtful if these further indicators will change the broad picture.

Unemployment has continued to fall and employment to rise for longer than can be explained away by the lagging nature of labour market indicators. Given the continuation of high headline inflation rates and a tightening labour market, it is not the size of earnings increases which is so surprising, but their relative moderation. In the last year annual earnings growth per head has fluctuated in the 9 to 9¼ per cent range – only slightly above the 7½ to 9 per cent tunnel in which they have been moving since 1983. It would be surprising if they did not go somewhat higher before the present phase ends.

By contrast the supposed dip into deficit of UK invisibles (which have been in surplus since the Napoleonic Wars) in the fourth quarter of last year is mainly a statistician's problem which indicates that woes "come not in single spies, but in battalions." The £0.7bn recorded invisible deficit (and £4.4bn visible one) should be contrasted with the £10.1bn favourable "balancing item" in that one quarter alone.

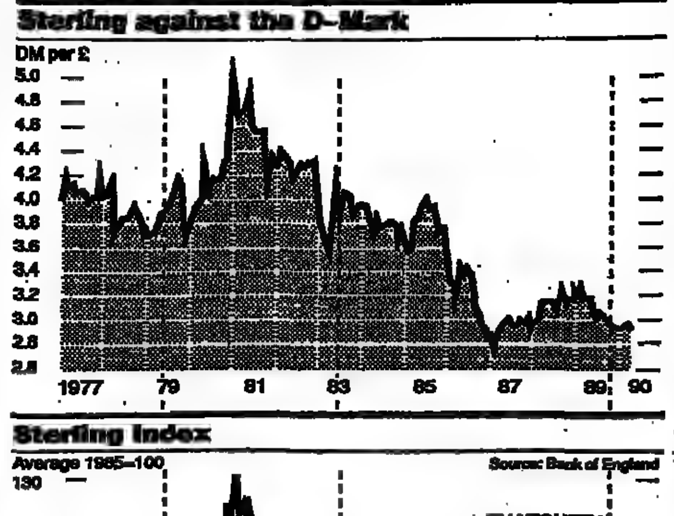
To come back to real policy. The difficulty of engineering a British recession derives from

The markets would like a non-existent paragon at the head of affairs

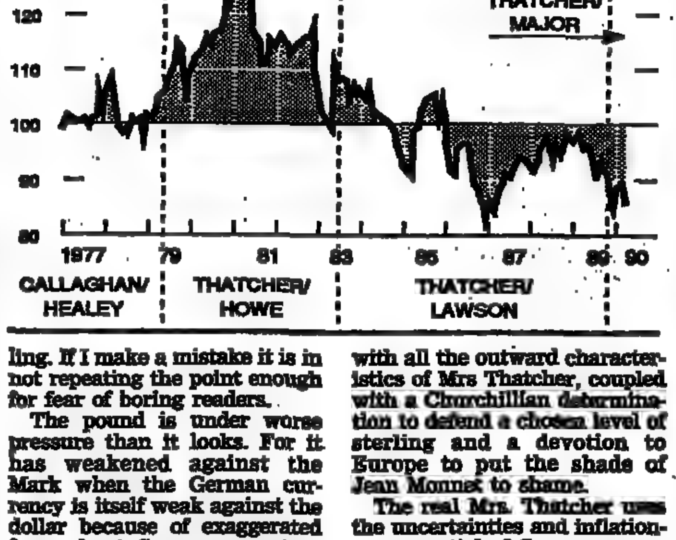
the state of Britain's main customers and competitors. European markets have been booming; and even the US – the weakest of the large economies – has merely slowed down.

The implication is that the UK real economy is much less susceptible to national management than most school of macroeconomists – monetarists just as much as Keynesians – have supposed. Nor is this is necessarily a cause for tears. The mistake – if business readers will excuse a highbrow point – is to seek to treat a nominal disorder, namely inflation, by seeking real changes. It should not matter – indeed it should be a cause for rejoicing – that the slack caused by a slowdown in home demand is being taken up by exports. The missing element is a nominal anchor – in plain English a policy for sterling. If I make a mistake it is in not repeating the point enough for fear of boring readers.

Sterling against the D-Mark



Sterling index



The pound is under worse pressure than it looks. For it has weakened against the Mark when the German currency is itself weak against the dollar because of exaggerated fears about German monetary union. The yen is also weak because of disarray in Japanese financial policies. Were these major currencies in better shape the pressure on sterling would be more obvious.

After some recovery early in 1990, sterling is now back where it was at the end of 1989, or almost as low as it has ever been. We have the worst of all worlds: neither a definite sterling policy nor a genuinely monetarist one of letting the pound go where it will. It now takes a higher level of base rates to sustain the pound in any particular range than it need have done; and for any level of base rates sterling is lower than it would have been if the Government had not moved so far away from having an exchange rate policy.

The ironical thing is that sterling is weak, partly but only partly, because of the perceived threat to Mrs Thatcher. Yet any alternative Prime Minister would be more committed to the defence of sterling inside the European Monetary System. The financial markets would like to see a non-existent paragon at the head of affairs – a Prime Minister with all the outward characteristics of Mrs Thatcher, coupled with a Churchillian determination to defend a chosen level of sterling and a devotion to Europe to put the shade of Jean Monnet to shame.

The real Mrs. Thatcher uses the uncertainties and inflationary potential of German monetary union as one further pretext for Britain to keep its distance from the EMS.

But the black propaganda should not be taken too seriously. If the all-German rate of inflation is higher than the British rate over the next five years, I am prepared to send six bottles of good sekt of my own choice to the first reader who reminds me of the fact.

Apart from the lack of a policy towards sterling, the second self-inflicted British wound is of course the poll tax. By abolishing rates, the last remaining tax on domestic property, the Thatcher Government has given a further boost to the long-term upward trend in property values and thus the British propensity to inflate. A third self-inflicted wound will be administered if the Prime Minister ever gets her way in raising the mortgage interest relief ceiling.

The poll tax is also a disaster for short-term economic management. It will add one percentage point to the Retail Prices Index when that Index is already swollen by mortgage increases. John Major will thus have to use all his cosmetic ingenuity to prevent a new RPI peak in excess of 9 per cent this spring. He will thus be very boxed in when he presents his budget, particularly in relation to Excise duties.

He may be more successful than the pundits predict in making the Budget "interesting" in terms of specific changes. Contrary to some reports the £0.5bn cost of independent taxation in 1990-91 has already been provided for in the Revenue estimates published a year ago. Moreover the falling off in the surplus this year below the Budget forecast is due mainly to once-for-all forces, such as more people opting out of state earnings-related pensions and the boost to local authority spending ahead of the poll tax. Even so the Chancellor will need some pretty tight fiscal arithmetic to persuade the financial markets that the 1990-91 Budget surplus will near to the £10bn sketched in a year ago – or at least not fall below the single figure turnout likely for this year.

He will for instance need to think many times before undertaking a full valorisation of the Excise duties – which would add half a percent to the RPI, let alone extending indirect taxes further. Measures against company cars and other concessions would yield useful amounts of revenue. Further tightening means in practice the non-indexation of the tax thresholds – which would yield £1.6bn in 1990-91. Such a hardening of the fiscal stance is likely to be symbolic only, designed to affect the sentiment of the financial markets rather than the actual course of demand.

At some stage, before or after the Budget, there will be a rally in sterling. This will do much less good than it might because in the absence of an EMS or similar commitment it will provide the markets with no guidance about the likely longer-term movement of the pound, nor any good reason for employers to disbelieve that wage increases will be offset by sterling depreciation, as they nearly always have been.

I have left no space for fundamental explanation of why we are where we are. Let me just say that the Treasury's

A nation in which the shops are too full of goods is not experiencing tragedy

explanation in terms of an excessive relaxation for a few short months after the 1987 Wall Street crash is trivial. It is also using one Chancellor to disparage another Chancellor in order to cover up for the failure of its own forecasts. Nor does the Bank of England shine by comparison.

A nation whose main economic problem is the shops are too full of goods which people can afford to buy is hardly experiencing a tragedy – as the citizens of Kiev, Leipzig or Warsaw would confirm. But the last thing that the British Prime Minister can claim is anti-inflationary virtue. And her self-appointed Praetorian Guard who inconsistently call both for a hands-off policy towards the pound and for devaluation are the worst counsellors she can possibly have.

BOOK REVIEW

Yeltsin's vain Russian hope

AGAINST THE GRAIN
By Boris Yeltsin
Jonathan Cape, £12.95

Boris Yeltsin's biography inspires fear. You end it fearful that the Soviet Union is incapable of producing a political class.

By his own account, the main opponent to Mikhail Gorbachev has no programme, no critique beyond a demagogic condemnation of privilege (about which he is fascinating) and no useful insights into his country's plight.

Mr Yeltsin puts himself across as a man who should get votes because he is, and always has been, the People's Friend. But there are few politicians more generally deserving of the people's distrust than a Friend.

This is the story of a boy from Sverdlovsk province who had a tough childhood in the 1930s, growing up in a small room in a hut on a construction site on which his father was a labourer. His intelligence and motivation propelled him through school and polytechnic to managerial jobs on construction sites and Party work in Sverdlovsk. He became First Secretary at provincial level at the age of 45.

In this post too, Yeltsin's account was that he was a stunning success – efficient, decisive and highly moral. "I used that power, but only in the name of the people, never for myself. I made the wheels of the economic machinery turn faster. I was listened to and obeyed, and thanks to that, it seems to me, every enterprise functioned better."

Yeltsin became acquainted with Gorbachev a little before the latter rose to power as General Secretary in March 1985. Yeltsin was summoned to Moscow in April of that year, initially as head of the Central Committee's construction department. In December he received another promotion – to First Secretary of Moscow and, with it, a seat in the Politburo.

He harshly describes the corruption and stagnation. Moscow's problems, which he insisted on seeing at first hand in metros and in shops, did not respond to his 18-hour work days. He began to clash with Yegor Ligachev in the Politburo and, although he still trusted Gorbachev, he increasingly notes the habits of a tsar.

"Gorbachev was growing more and more fond of the sound of his own voice. It was obvious that power was exerting its hold over him: he was losing touch with reality, possessed as he was by the illusion that perestroika was developing widely and in depth, that it would soon encompass the whole country and the broad mass of people."

Yeltsin becomes increasingly critical of the cocoon in which he lived, describing very well the special shops, hospitals, food stores, limousines, teams of bodyguards and servants, dachas – all run, without regard to the expense – by the ninth directorate of the KGB. Yeltsin was allocated the dacha previously used by the Gorbachevs.

"I went into a hall measuring 15 feet by 30, with an enormous fireplace, marble panelling, a parquet floor, large carpets, chandeliers and luxurious furniture. We went on, passing through first one room, then a second, a third, a fourth, in each of which was a television set. Also on the ground *floor* was a small cinema which was also a billiard room. I lost count of the number of bathrooms . . ."

Yeltsin entered into contemporary history when he tendered his resignation at the October 1987 plenum of the Central Committee, criticising Gorbachev's "personality cult." A few weeks later he was hauled out of bed after a stroke and dragged to a politburo meeting to be told his resignation was accepted.

Yeltsin was allowed to retain the job of deputy chairman of the construction department, a post carrying ministerial rank, but continued to run on the anti-Gorbachev ticket.

He was triumphantly elected by Muscovites to the Supreme Soviet last year and has become the leading member of the Inter-Regional Group of Deputies, which included the late Andrei Sakharov.

He has continued his attacks on Party privilege (even while believing, at least up to the end of writing the book, in the Party's monopoly of power); on Gorbachev; and on the deteriorating economic situation. However, Yeltsin rarely seems to feel the need to describe what he stands for. In a broad sense, the group to which he belongs seems broadly to stand for the creation of more markets. But he has been vague on the issue, devoting to it just half a page in a book of more than 200 pages. As a world traveller, he uses pulpits everywhere to predict catastrophe for perestroika and his country. He commands a huge constituency: disaffection with perestroika is a good bandwagon and he was on it early.

Allegations of drunkenness on a US tour and after a bizarre incident when he turned up drenched at a rural police station may be the lies of enemies – but they have hardly harmed him.

Boris Yeltsin may soon be President of the Russian Federation, a powerful position from which to level fire at his rival.

Cunning, vainglorious, with a huge thirst for power and a shrewd nose for finding it, the Soviet Union – or at least Russia – may one day come to this man. The biography does not convince that it would be better that it did.

John Lloyd

As we were saying

■ A few points in common between Peter Walker, the outgoing Secretary of State for Wales, and David Hunt, the man who, despite our advice to the Prime Minister yesterday, has succeeded him.

Both live in one of the best preserved little Georgian streets in London – Cowley Street, just across the road from Parliament. Both have been local government ministers at difficult times. Walker was Environment Secretary from 1970-72 and responsible for creating the metropolitan county councils, since abolished. Until yesterday, Hunt was minister of state for local government and doing his best to defend the poll tax.

They were at the Energy Department together, Walker as Secretary of State from 1983-87 and Hunt as the junior minister from 1984-87. Both are excitable about cricket and both are MBEs. Both have large families. Walker has three sons and two daughters with whom he wants to spend more time. Hunt has two sons and two daughters, but has not yet tired of ministerial life.

OBSERVER

Dublin's beasts

■ If you are a hippopotamus, the outlook is not too good, especially if you happen to be in Dublin. The city's zoo, founded more than 160 years ago, is in danger of closing due to lack of funds.

Finding alternative homes for some of the animals would be impossible, say the zoo's administrators. Many animals are domesticated now and can hardly be returned to the wild. There have been warnings that up to 50 per cent of the beasts might have to be put down.

The dire financial position the zoo finds itself in could mean the end of the trail for Spunky and Ootek, the zoo's polar bears. Also under threat are the hippos.

Dublin zoo is in Phoenix Park, one of Europe's biggest and grandest open city spaces. For years the zoo has teetered on the financial brink, starved of Government funding and plagued by mismanagement. Many animals are forced to live in cramped conditions and attendance figures have been falling.

The Royal Zoological Society of Ireland, owners of the zoo, had a deficit of more than I£300,000 last year. A special Society meeting was told recently that, come this weekend, the zoo might have to close if I£100,000 in emergency funds have not been found.

The public seem a bit cynical: the zoo has cried wolf before, but has somehow managed to keep going. Politicians have accused the zoo of using scare tactics in order to solicit funds. Charles Haughey, Ireland's Prime Minister, has said he is "a bit tired" by all the alarmist talk. A Government committee which is looking into the zoo's funding and management is due to report next month.

The threat of all the animals being turned loose on St Patrick's Day (next Saturday) may be receding, and Spunky and Ootek could yet be saved. But in Ireland you never can tell.

Democracy

■ Unusual extension of shareholder democracy: Community Hospitals, the healthcare group chaired by Sir Peter Thompson, has offered shareholders a choice of venue for the agm to be held in November. Along with the six months' results this week went a form inviting the 3,000 shareholders to say whether the meeting to take place in London or in Bedford, where the company has its headquarters. Venues are being provisionally booked in both places, pending the outcome of the poll.

"My extradition was blocked on the grounds that I might pay poll tax."

In its first reporting period since going public, and allowing for exceptional items, the company made a pre-tax profit of £3.09m.

BT's style

■ A touch of the old arrogance towards customers lingers in British Telecom. While querying an account, a colleague asked which of his two phones it related to, since no telephone number was mentioned on the statement. "Ah," said the British Telecom voice, "we've gone over to using account numbers instead of telephone numbers."

"But isn't that baffling for customers who do not know *the account numbers?"* The BT response was: "They'll just have to get used to it."

In disguise

■ There was was a birthday party at the Barbican Centre last week for a member of the management staff of the London Symphony Orchestra. All was going off in the conventional way when there was *a knock at the door and there* entered a gorilla.

It was a very large gorilla, very friendly-looking, but doing the usual gorilla-type things, like scratching under the armpits and rubbing its rear parts. It also made a few fumbling gorilla-like passes at some of the ladies.

Because the gorilla was so big, nobody noticed at first that it was carrying a violin and bow. Then *it began to play* an exceedingly bad rendering of Happy Birthday. The gorilla played it again – this time to perfection. The beast then unzipped itself around the head and was revealed to be Mstislav Rostropovich.

Rostropovich went on to give one of the most acclaimed concerts of the Barbican-Wigmore Schnittke series. Apparently, he thought of the idea of dressing up as a gorilla all by himself.

Vikki Harris

■ Vikki Harris, the long suffering victim of cancer, died last weekend shortly after her 16th birthday. The Vikki Harris Laser Fund, which she set up, raised around £75,000. It has achieved its first objective of acquiring a surgical laser for the London hospital, Barts, where she was a patient.

The rest of the money is being used for additional equipment and for the opening of a teaching ward. The fund will remain open for another three months or so, and any donations should be sent to The Society of Oddfellows, 70 Ronald's Road, Highbury, London N5: cheques made payable *to the Vikki Harris Laser* Fund.

Vikki's funeral will take place at the Greek Methodist Church, Mare Street, Hackney at 11 am next Monday.

Market roots

■ Reader's letter: "Surely Taurus will work efficiently only during a Bull Market?"

David Marsh steps inside the changing world of the publisher of Der Spiegel

Both hero and bogeyman

Rudolf Augstein, the enigmatic founder and publisher of the West German news magazine Der Spiegel, surveys the world from a many-windowed office on the 12th floor of the newspaper's office block in Hamburg. Adjoining is his private bathroom, adorned with monogrammed towels.

As the countdown begins to German unity, the world outside is changing. Mr Augstein, a left-leaning multi-millionaire and the country's most influential journalist, is curiously satisfied with what he sees. "During a certain period, we knew that we were one nation," he says, his gold-rimmed spectacles glinting. "Then, many people forgot it – now, we are recognising it again."

His voice, tinged with both cynicism and tenderness, frequently trails off in a self-deprecating chuckle. Aged 66 and not in the best of health, but scotching any talk that he might stand down, he has the look of a shy scholar rather than a Citizen Kane. "I have always had much more money than I needed," he says, almost apologetically.

During the last few months, Mr Augstein has emerged as one of the most trenchant supporters of German unification. Causing him a certain amount of embarrassment, his pungent pro-unity editorials have been regularly reprinted lately by a newspaper always regarded as Der Spiegel's sworn enemy – the intensely conservative daily Bild.

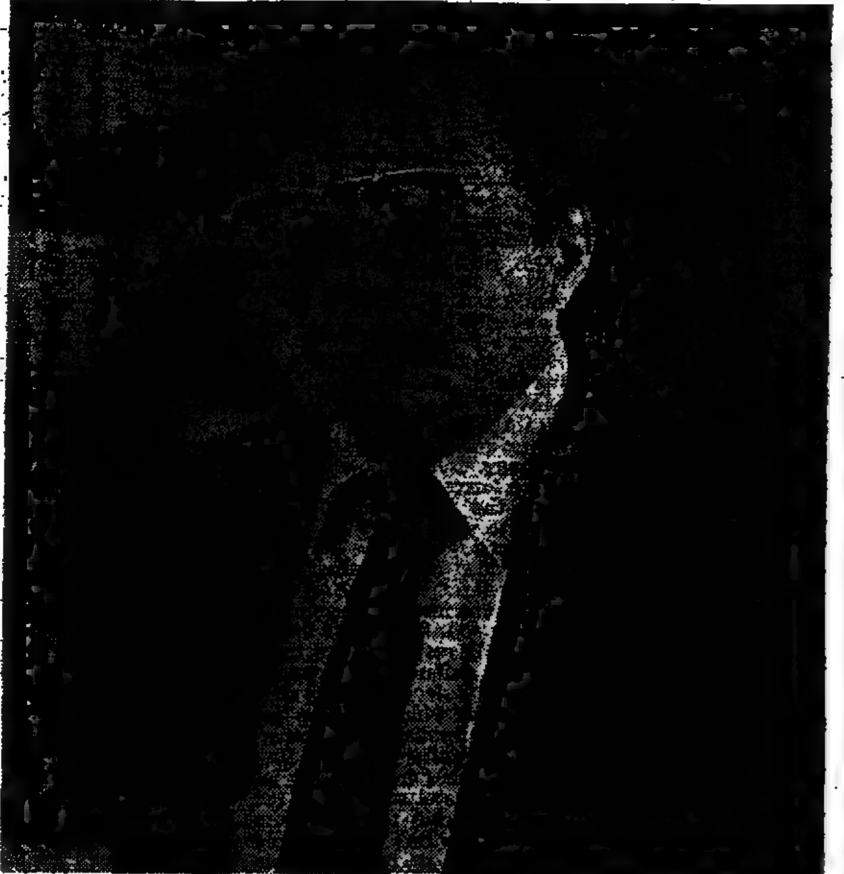
Born in Hanover, into a resolutely anti-Prussian family originally from the Catholic Rhineland, Mr Augstein has been only once to East Germany (excluding East Berlin) in 40 years. "I found it intolerable, and I didn't want to go back." Now, Der Spiegel is considering spending DM10m (£3.6m) to establish a presence in East Germany, where Mr Augstein estimates short-term sales will be 50,000 copies (compared with the magazine's million plus circulation).

Mr Augstein has directed much invective lately at foreign politicians voicing suspicions that a unified Germany will endanger the European power balance. He understands, however, some of the misgivings – particularly since they have been resuscitated recently by Chancellor Helmut Kohl's clumsy handling of the question of Germany's future border with Poland.

"Germany will have a key position as far as economic prospects in eastern Europe are concerned," says Mr Augstein. He adds: "Germany really doesn't want a centimetre of territory back (from the East). A united Germany will not be a problem. But unification will shift the axis of Europe eastwards – London and Paris will be on the edge."

The West should face facts, says Augstein: "Today Germany doesn't threaten anyone." But he says that Nato "has lost its strength and purpose," and may well be "superfluous" in 10 years time.

Referring to the 1955 treaty (Deutschlandvertrag) signed by the US, the UK and France, which backed unity, Mr Augstein says of recent weeks, "There was justified alarm over the way that we were made to see that treaties signed by the allies were not worth anything. The views expressed by Thatcher and Mitterrand (on efforts to brake the process of German unity) have had a counter-productive effect. People act as if Germany is only a danger if it has a prosperous economy."



Rudolf Augstein: 'I have always had much more money than I needed'

Pointing to the US Government's more relaxed stance over unity than the UK and France, Mr Augstein says: "I think they came to some form of agreement with the Soviet Union at Malta over the way to handle German unity." The key is the diminution of the Soviet Union's own strength. "There used to be two world powers. The Americans have recognised that now there is only one – the US. That makes the Americans more sure of themselves."

Mr Augstein grew up with the Federal Republic and helped to shape it. As a 23-year-old back from the eastern front, he founded the magazine in 1947 under a provisional publishing licence from the British occupation authorities in Hanover. Der Spiegel's incisiveness has made Mr Augstein both hero and bogeyman to two generations.

Chancellor Helmut Kohl – for years, portrayed in Der Spiegel as a buffoon – constantly tells visitors that he pays no attention to the magazine. The Chancellor has however been known to ring up one of his aides at the weekend to gain a preview of the latest edition. In view of Kohl's ambiguities over the Polish border, Mr Augstein describes the Chancellor in this week's issue as "not capable" of steering forward unity in harmony with Germany's neighbours.

Mr Augstein's most dramatic hour came in 1962. He was jailed for 14 weeks in the celebrated "Spiegel affair" when Franz Josef Strauss, the then Defence Minister, accused the magazine of leaking defence secrets, but was himself forced to resign. The episode was a watershed, establishing for the first time the power of the German press to stand up to politicians. Since then, Der Spiegel, with a turnover of around DM350m last year, has become the biggest news magazine in Europe.

Mr Augstein admits that his editorials in favour of unification have caused "some tension" among his staff, some of whom have accused him of a turncoat switch to the Right. He is in fact restating principles he developed during the 1950s, when he attacked Chancellor Adenauer's policies of exclusively building western links.

Mr Augstein says of the magazine's recent extensive coverage of the moves to unity – including several scoops on scandals in East Germany: "It has given us all a kick and got us out of the routine. There were some arguments about the articles I wrote. But the more the people see that unity is going to come about, the less controversial these editorials have been."

He concedes the general astonishment. "We underestimated the effect of the reform process that started with Mikhail Gorbachev on the people in East Germany. We didn't realise that the real crisis in the Soviet Union coincided with the time of Brezhnev."

Eighteen months ago, Mr Augstein predicted that Chancellor Kohl would remain in power after the December 1990 general elections providing the West German economy remained strong. Now, he believes that unity fever could upset Kohl. "No-one can say what party will be the strongest after the elections." Kohl, he says, has been taken aback by the speed of events. "In December, he did not see himself as the Chancellor of the Fatherland – now he hears the rustling of the mantle of history."

Kohl's opponent in the December poll, Oskar Lafontaine, the Social Democratic Prime Minister of the Saarland, "is a dangerous opponent – he is unpredictable." Mr Augstein expects deviousness. "Both Kohl and Lafontaine will be playing two pianos at a time – they will hold up the German flag, but they will also have to ensure somehow that West Germany is not over-run [by émigrés from the East]."

Looking further ahead, Mr Augstein says that Bonn does not have too many years left as capital. "I believe that, by 1995, the Government will be back in Berlin, with a unified parliament and one head of state. It's not really reasonable to have the government in Berlin again – but the pressure is too strong."

Berlin, he says, "will be the capital of a centrally-directed federal state – the federal character of a united Germany will be much stronger than France's. (President Richard) von Weizsäcker has another three years as head of state – then the constitution will be changed so that he can become president of a united Germany."

What should be the constitution of a united state? Mr Augstein says the model should be the 1949 Grundgesetz (Basic Law) of the Federal Republic. Recalling the events 50 years ago which caused all the trouble in the first place, he suggests half-whimsically: "Perhaps we should replace the preamble about 'The entire German people is called upon to achieve the unity and freedom of Germany' with something like 'The entire German people is called upon never again to carry out such nonsense as in the past.'"

Employment training

Time to think about compulsion

By Richard Layard and Sig Prais

Once again the Government is going to reform training. It wants everybody under 18 to get it. This aspiration is not new; seven years ago the Youth Training Scheme was planned to be universal. It ended up with only half the intended coverage. This time there must be no tinkering. We must build a clearly understandable system that can last for decades.

Germany's extensive experience of training provides a starting point. Like the British, the Germans rely to a large extent on on-the-job training combined with part-time vocational colleges (one a day a week). The system is of high quality and nearly universal. Everybody under 18 is legally obliged to have at least a day a week off-the-job vocational education (or the full-time equivalent). His employer is obliged to release him. The result is a wide base of competence throughout the society.

Britain ought to follow five main principles suggested by the German experience:

● Compulsion. This has always been the main instrument for advancing mass education in Britain. But though in 1944 the Education Act provided that part-time education should become compulsory up to 18, from when the Minister decided; he never did so. The Germans did.

Without compulsion we can be sure that many employers will go on offering employment to youngsters in dead-end jobs without training. Surveys of employers have shown that they do not regard training or general skills as part of their business; and the current surge of interest in the business world cannot be counted on to persist.

If compulsion is unnecessary it can do no harm. It is no good repeating objectives yet again without a guaranteed mechanism of delivery. Let us set the dates now – say 1992 (for up to 17 and 1995 (for up to 18).

One problem with compulsory release for college attendance is that it would discourage firms from hiring young people. As the number of youngsters shrinks, this will matter less. But clearly employers will not hire young people unless it pays them to do so. On the continent they do hire them as trainees, because trainee wages are lower and vocational education at college is free.

● Young people under 18 have to be employed on a different legal basis from adults. Employers should only be able to employ them as trainees, with well-defined obligations on both sides. The code governing these contracts should make it clear that, in return for training, trainees cannot expect a full wage. Employers will then have an incentive to hire.

● The tuition costs of vocational education should be borne by the state. This is the universal rule throughout the continent of Europe. But in Britain the situation is quite extraordinary. Academic education is free (in school or via student grants), but vocational education and training is not. Yet the Government goes on complaining about the lack of vocational education and training. This verges on hypocrisy, unless such education is free.

Here we come up against a fundamental dogma: "the employer must pay." This reasoning is quite unsound, as Pigou pointed out years ago and the Chicago economists more recently. For the vocational education and training we are talking about raises a person's productivity whichever firm employs him. Any employer would be willing to pay him for the skill he acquires. If his own company underpays him, others will not hesitate to poach. Thus the firm that trains has no way of appropriating to itself the return on the investment.

The main return goes to the individual, just as it does with academic education. But, even as things are, individuals under-invest in themselves – due to ignorance, short-sightedness and lack of financing opportunities. If they bear the cost of lower wages, the state should bear the cost of tuition.

How much extra would this cost the Government? Probably well under half a per cent of total government expenditure. One cannot be precise, because unfortunately no one knows exactly how the present system is paid for.

This confusion in turn discourages uptake. We must achieve a clearer system. Otherwise we fear greatly that the country may head in the opposite direction, with more and more complex funding packages and no major expansion of real activity.

● We must have a national system, as in Germany. It will not do for each Training and Enterprise Council (TEC) to run its own system solely to meet the immediate needs of its local employers. Young people move around and need broadly-based qualifications that are nationally – and even internationally – accepted. *Information is costly but people can understand a national system provided it is simple enough.*

● There must be a level playing field between public providers (further education colleges) and private providers (proprietary colleges and training workshops). Thus any provider can offer a course for approval by a TEC. The TEC should not unreasonably refuse approval, whatever the level of the course, provided there are national examinations that are externally set and externally marked. Individuals of any age could then apply for the course, and if they were accepted, the fees would be paid by the state.

Some people advocate universal full-time, rather than part-time, education to 18. This is a mistake. The priority for full-time education is to devise and finance a much better curriculum up to 16. At the same time the youngsters of 16-18 need a new deal. The way forward is clear – part-time vocational education which is compulsory and free, with every youngster a trainee. But, please, a system that everybody can understand.

Richard Layard is Professor of Economics at the London School of Economics. Sig Prais is Senior Research Fellow at the National Institute of Economic and Social Research.

LETTERS

Hope for ACT reform

From Mr D.A.G. Simon.

Sir, David Waller's article ("Business worries are unlikely to tax Major," March 8) was perceptive in picking out Advance Corporation Tax (ACT) as an important topic. But the article belies the significance of surplus or unrelieved ACT to major international businesses such as ours.

Unlike Mr Waller, I am optimistic that the Chancellor will look favourably at the reform of ACT called for by so many. The present system is prejudicial to international business. It subjects Britain's multinational companies to economic double taxation and raises the potential for distorting investment decisions. ACT should be what the term implies – an advance payment of our liability to UK corporation tax, not, as it is for many companies, an additional tax burden.

Mr Waller explained in general terms how the problem arises for companies like BP (namely, ACT paid on dividends which cannot be offset against our UK tax liabilities because of foreign tax paid by us). This is an issue which affects not a few but many companies.

Our chairman was joined by the chairmen of 12 major companies in writing to the Chancellor on this issue. The CBI felt the topic was sufficiently important to write separately to the Chancellor rather than include it in its technical Budget representations. The Adam Smith Institute produced cogent arguments in favour of change. And the Institute of Directors, the Engineering Employers Association, the International Chamber of Commerce and the Institute of Chartered Accountants in England and Wales have all made representations. Hardly a "handful of... behemoths!"

Furthermore each of these representations has been made in advance of this year's Budget (the CBI's as recently as February 26) and it is too early to say that the representations have "fallen on deaf ears."

David Simon,
Deputy Chairman, BP,
Britannic House,
Moor Lane, EC2

East-West pollution control

From Mr James Skinner.

Sir, Quentin Peel ("Rescuing the poisoned earth," Soviet Union Survey, March 12) quotes Mr Alexei Yablokov, the ecological campaigner, as saying it would cost up to Rbs 250bn to stabilise the disastrous environmental situation in Russia in the next two to three years and then "begin to repair the damage." On Tuesday you reported that some of the biggest western investments to be made in eastern Europe will be in car making.

Is it not ironical that, far from assisting the eastern countries to find ways of tackling their environmental problems, we are rushing to assist them to follow our own polluted pathway to higher consumption of scarce resources?

The production and operation of cars seems to be generally recognised as the single worst source of pollution. With global car production already proceeding at nearly 15,000 an hour, surely it is time for co-operation with the East in developing new solutions to transport problems. Could we not also find ways to give priority to investment in repairing the ecological damage that communism has wrought?

James Skinner,
Environmental Futures,
Heron House,
Chiswick Mall, W4

EC directive on programs

From Professor W.R. Cornish.

Sir, Concerning the European Community's proposed directive on copyright in computer programs, Robert Moreland (Letters, February 15) insists that reverse engineering is the route to copying, that member states will therefore want to forbid decompiling, and that the Council of Ministers should seek to block any aspect of reverse engineering that could lead to copying.

His approach is unduly restrictive. The directive, while prohibiting those actions which actually involve copying of the expression of a program, should equally permit the analysis of a program for legitimate purposes. These include the tracing of faults and other maintenance, and also the creation of interoperable systems where the only analysis undertaken is to learn the underlying ideas and principles of the program.

The draft directive already accepts that the taking of such ideas (which may include the specification of interfaces) will not constitute copyright infringement. Accordingly, it must remain legitimate to take steps solely to discover them.

If an express exception to this effect is not included in the directive, the essentially independent development of new software may well be prejudiced. Thus the competitive balance in the European computer industry will shift even more in favour of a few dominant, mostly American, computer companies.

W.R. Cornish,
Law Department,
London School of Economics,
Houghton Street, WC2

The rediscovery of English

From Mr Y.A. Shirawi

Sir, Victor Mallet ("Qatar's divers rediscover the natural pearl," Frankfurt edition, March 8) referred to the finest grade of pearl as the "giwan," as if it were an Arabic or local word.

But this is not the case. The word "giwan" is, in fact, English!

When the *Gulf* merchants came into contact with the Indians who bought pearls, the Indians always spoke of the finest quality of pearls as Grade 1, or G-1.

Ever since, the Gulf people have referred to the finest pearl as the "Gi-wan."

Yousuf A. Shirawi,
Minister of Development and Industry,
State of Bahrain

Adam Smith on poll tax

From Mr T. Charles-Edwards.

Sir, It would be a kindness if one of those enthusiasts for the works of Adam Smith, whether in government or in the institute which has taken *his name*, would spare the time to explain how he would refute the following judgment on poll taxes:

"A poll tax upon freemen ... is either altogether arbitrary or altogether unequal, and in most cases is both the one and the other." (Wealth of Nations, Glasgow edition, page 857).

T.M. Charles-Edwards,
Corpus Christi College,
Oxford

Doubts about East German convertibility plan

From Professor Brian Tew.

Sir, Professors Steve Hanke and Alan Walters (Letters, March 7) have obligingly clarified the two questions I raised (Letters, February 23), but have not persuaded me that theirs is the best recipe for a convertible East German Mark.

First, though the convertibility of East German bank notes issued by a proposed currency board would undoubtedly be assured if we suppose that "West Germany would make a transparent grant of D-Mark assets to the East German board;" is it likely that the West German authorities would regard such a board as a deserving beneficiary of their cross-border generosity?

Second; it would be small consolation to a depositor at an East German bank (supposing deposit banking to be privatised) that such a bank would be forced to make its deposits convertible at the currency board's exchange rate or "wither away and make room for new entrants."

In practice an East German bank would undoubtedly suffer the latter fate as soon as it became subject (as it soon would be) to competition from West German banks enjoying a virtually unlimited command over supplies of West German currency.

It is surely no coincidence that in the former British colonies (whose currency boards were the prototype of the Hanke-Walters proposal) deposit banking was almost entirely in the hands of expatriate banks such as Barclays DCO.

Would "Mr Karl Otto Pöhl and some East German officials," who would allegedly suffer "considerable discomfort" at the thought of the West German central bank taking responsibility for the currency of East Germany, nevertheless be content to see East German deposit banking taken over by the West German commercial banks?

Brian Tew,
Loughborough University,
Banking Centre,
Loughborough, Leicestershire

FINANCIAL TIMES
Thursday March 15 1990

Schnur resignation mars Alliance poll hopes

By David Goodhart in Leipzig and Leslie Colitt in Berlin

THE RESIGNATION yesterday of Mr Wolfgang Schnur, the leader of Democratic Awakening, one of the parties in the East German centre-right Alliance for Germany, overshadowed what should have been a triumphal final pre-election rally for Mr Helmut Kohl in Leipzig.

Mr Schnur's departure, over his links with the Stasi secret police of the former East German Communist regime, is a sharp blow to the electoral chances of the Alliance, which Mr Kohl has endorsed during the campaign for Sunday's East German elections.

The expectations last night were that Mr Schnur would be succeeded by Pastor Rainer Eppelmann, a long-time friend, and co-founder of Democratic Awakening, originally a Church-based movement.

The resignation leaves Mr Lothat de Maiziere, the leader of the East German CDU, which is also part of the Alliance, as the chief conservative candidate to become East Germany's Prime Minister should the alliance turn its recent gains in the opinion polls into victory on Sunday.

The Alliance's hard-hitting campaign has in the past few weeks appeared to eat into the lead of the East German Social Democrats (SPD) who have also been squeezed by a small improvement in the fortunes of the PDS (the former Communists) fuelled by fears of the effects of a capitalist takeover.

Despite the setback, Mr Kohl still drew 200,000 supporters in his sixth and final rally cheering "Helmut, Helmut" and waving the green and white flag of Saxony alongside the black, red and gold. A few hundred left-wing opponents kept up a steady whistle through his speech.

Mr Kohl said yesterday that Mr Schnur's resignation was a case of "personal failure", but stressed that his West German CDU party would continue to work closely with the Alliance.

The resignation of Mr Schnur, a lawyer who defended political dissidents for the Protestant Church under the former Communist regime, followed publication of Stasi records last week. These showed that he had passed information on Church and dissident affairs to the Ministry of State Security.

Mr Schnur had repeatedly denied earlier allegations of his links with the Stasi. However, speaking yesterday from the East Berlin hospital where he has been confined since collapsing last week with heart problems, his statement was less categorical.

"Since I am unable at present to clear up objectively the charges against me, I am drawing the consequences in the interest of political honesty and responsibility," he said.

In a West German newspaper article to be published today, Mr Schnur is quoted as saying that after being beaten up and tortured in 1964, he was forced to give an undertaking to pass information on to the Stasi.

Mr Reinhard Schult, a prominent member of the New Forum movement which helped oust the former Communist leadership, said yesterday that there was also evidence that other leaders of East German parties had also had links with the Stasi.

Poland to take part in talks on unification

THE two German states and the four Second World War allies – the US, Soviet Union, Britain and France – yesterday agreed to involve Poland in talks about German unification, writes David Marsh in Bonn.

After a longer than expected meeting at the West German Foreign Ministry (right), officials from the six countries said that Poland would be associated with the deliberations "especially" in connection with the future eastern border of a united Germany.

This formula means that Warsaw could take part in future sessions dealing with subjects other than the border. By casting the terms for Polish participation wider than expected, the other countries have made clear their anxiety to suppress any residual ambiguity about possible West German territorial claims on Poland.

Poland, however, will not become a member of the "2 plus 4" group. Meetings of "2 plus 4" officials are to take place alternately in East and West Germany. The next gathering of the officials will take place in Berlin immediately

after formation of a new East German government. No date has been set for a full foreign minister conference.

The controversy about the attempt by Mr Helmut Kohl, the West German Chancellor, to link the border question to renunication of Polish war reparation claims had led to strains with Paris. Mr Kohl yesterday tried to smooth ruffled French feathers yesterday in a telephone conversation yesterday with French President François Mitterrand.

The West German Government took the unusual step of announcing that Mr Mitterrand telephoned Mr Kohl to report on his talks with Polish leaders in Paris last Friday. The government spokesman in Bonn was at pains to point out Mr Mitterrand's view that France's relations with West Germany were "good and healthy."

● In London, British Foreign Secretary Douglas Hurd expressed confidence that the west had now established the right framework for German unification, writes Philip Stephens. He also said there were strong foreign policy reasons for Britain to take up full membership of the European Monetary System but that the timing of any such move had to be based on economic considerations.

Testing time for Hurd, Page 8

Pretoria shifts emphasis from defence to welfare in budget

By Patti Waldmeir in Cape Town

A SWITCH in South African spending from defence to social welfare programmes for blacks, coupled with concessions to white taxpayers, was unveiled by the Pretoria Government yesterday as it presented its budget for 1990-91.

"It is in everyone's interest that a more acceptable and better balanced situation with regard to living and other standards should come about in South Africa with all possible speed," said Mr Barend du Plessis, the Finance Minister, when presenting the budget to parliament.

Defence spending is planned to increase by only 1.3 per cent in the year to March 31 1991. With inflation expected to average between 13 per cent and 14 per cent for the year, this represents a sharp real cut in expenditure on defence, which has assumed a lower priority because of the improved security situation in southern Africa.

Some three-quarters of the R1bn ($400m) saved on defence would be diverted to increased spending on black education, which will rise by 17.6 per cent to R4.9bn. Spending on white education will rise only half as fast.

However there would still be a very large disparity between the two budgets; total spending on whites still exceeds total spending on black education, although blacks outnumber whites in the population by 5-1.

Mr du Plessis also announced the creation of a R2bn capital fund which, he said, would be "specifically dedicated to the removal of socio-economic backlogs in our country." He gave no details of how the fund would be spent, but noted that backlogs existed in housing, education, training, literacy and basic health.

The new social fund looks likely to be spent on infrastructure creation in black townships and perhaps on job promotion schemes. Private sector businessmen have also been looking at ways of boosting social spending by business.

Mr du Plessis also announced a 16 per cent increase in police spending, reflecting government concern over rising unrest and crime in black townships during a period of political upheaval preceding negotiations on a new constitution.

However, he surprised economists by announcing revenue measures which he said would ease the heavy burden of individual taxation, trimming R4bn from individuals' tax bills in the coming year – mainly affecting whites.

The gold mining industry also saw several tax changes, including partial withdrawal of so-called "ring fencing" which prevented mining companies writing off the cost of new mine developments against taxable profits from existing mines.

UK to press ahead with Hong Kong passport plan

By Philip Stephens, Political Editor, in London

THE BRITISH Government plans to publish within the next few weeks its proposed legislation to provide UK passports for some 225,000 people in Hong Kong. This is despite the threat of a large-scale revolt in the House of Commons by its own Conservative MPs.

Mr Douglas Hurd, the Foreign Secretary, in an interview with the Financial Times, said that the scheme's details were now close to being finalised. The scheme is designed to prop up confidence in the colony ahead of its handover to China in 1997.

He insisted that the Government would press ahead with the legislation despite warnings from Conservative opponents at the House of Commons that more than 80 of its own supporters were against it: "It would be extremely damaging if it did not happen."

Providing an insurance policy for up to 50,000 key personnel and their families was an essential element in maintaining confidence. The criteria for eligibility would be set to ensure that the specialist workers in the public and private sectors that the colony needed would stay up until and beyond the transfer to China.

"It is aimed at key personnel. It is not aimed at millionaires. In my experience millionaires tend to be able to make their own arrangements," Mr Hurd said.

He gave no precise timetable for the legislation, but it is understood that it will be published before April 5. A parliamentary debate would follow about two weeks later.

An internal row over the issue is likely to add to the political difficulties faced by the Government.

Mr Hurd, who has the full backing of Mrs Margaret Thatcher, the Prime Minister, on this issue, made it clear, however, that the Government believed that most of those given full passports would stay in the colony.

Mr Hurd invigorated by challenge and change, Page 8

Japan interest rates under pressure as yen weakens

Continued from Page 1

despite buying an estimated $12bn worth of yen over the past month, has exacerbated the unease permeating the stocks and bonds markets.

Yesterday the Nikkei index of leading shares fell a further 268.44 to close at 32,352.13, against 33,690.89 last Thursday. The yield on the benchmark government bond has risen to 7.325 per cent, compared with 7.170 per cent a week ago.

To make matters worse, investors in Tokyo are almost unanimous in expecting further declines in the yen. "A huge anti-yen sentiment has built up among Japanese financial institutions," said Mr Robert Feldman, an economist at Salomon Brothers, the US investment bank, yesterday.

Mr Teizo Taya, senior economist at Daiwa Research Institute, an affiliate of Daiwa Securities, said: "Japanese investors don't know where to put their funds."

The ruling Liberal Democratic Party's difficulties at home and in trade relations with the US have contributed to undermining confidence in the yen. However, the immediate cause of the uncertainty is an argument between the Bank of Japan and the Japanese Ministry of Finance over interest rates.

Central bank officials would like to increase rates to stem the yen's decline and stamp out the risk of a potential resurgence in inflation. The Finance Ministry believes any further rise in rates will slow Japan's economy.

Had it not been for the ministry's opposition, the central bank might well have raised the ODR already this year from its current level of 4.25 per cent, even though the last rise took place only last December. The delay seems to have increased many fund managers' doubts about the course of Japanese monetary policy.

For this reason, some bankers and brokers think Mr Mieno has little choice but to raise rates soon, but others argue it is too early to raise the ODR, given that there is still little evidence of inflation in published price statistics.

Consumer prices have risen by 2.6 per cent over the past year, well above the previous year's 0.1 per cent. But the figure is inflated by the one-off effect of the consumption tax, which boosted the increase by about 1.5 percentage points.

Moreover, those in favour of a delay say that any rise in the ODR should, for maximum effect, be co-ordinated with moves by other countries – notably an interest rate cut in the US.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	[illegible]	[illegible]	Dubrovnik	S	[illegible]	[illegible]	Malta	F	17	63	Rhodes	S	17	[illegible]
Algiers	S	21	70	Edinburgh	F	11	52	Manchester	F	11	52	Rio de J'o	–	–	–
Amsterdam	S	12	54	Faro	S	21	[illegible]	Manila	F	[illegible]	[illegible]	Rome	F	17	63
Athens	S	19	66	Florence	S	[illegible]	[illegible]	Melbourne	–	–	–	Salzburg	C	11	52
Bahrain	–	–	–	Frankfurt	F	13	55	Mexico City	F	29	84	San Francisco	C	[illegible]	[illegible]
Bangkok	F	[illegible]	[illegible]	Funchal	[illegible]	17	63	Miami	S	21	70	Seoul	R	7	45
Barcelona	F	17	63	Geneva	C	[illegible]	[illegible]	Milan	S	[illegible]	[illegible]	Singapore	–	–	–
Beirut	–	–	–	Gibraltar	S	21	70	Montreal	C	1	34	Stockholm	F	[illegible]	[illegible]
Belfast	C	[illegible]	[illegible]	Glasgow	F	[illegible]	[illegible]	Moscow	C	-4	25	Strasbourg	C	11	[illegible]
Belgrade	S	[illegible]	[illegible]	Guernsey	S	11	52	Munich	[illegible]	7	[illegible]	Sydney	–	–	–
Berlin	R	[illegible]	[illegible]	Helsinki	S	[illegible]	[illegible]	Nairobi	F	24	75	Taipei	–	–	–
Biarritz	S	15	59	H. Kong	F	[illegible]	[illegible]	Naples	F	[illegible]	[illegible]	Tangier	F	17	63
Bombay	–	–	–	Innsbruck	F	[illegible]	[illegible]	Nassau	F	27	80	Tel Aviv	F	[illegible]	[illegible]
Bordeaux	F	14	57	Inverness	F	11	52	New Delhi	–	–	–	Tenerife	S	20	68
Brussels	F	[illegible]	[illegible]	Islamabad	F	[illegible]	[illegible]	New York	S	[illegible]	[illegible]	Tokyo	–	–	–
Budapest	F	[illegible]	[illegible]	Istanbul	[illegible]	[illegible]	[illegible]	Nice	[illegible]	17	63	Toronto	Fg	[illegible]	[illegible]
B. Aires	C	[illegible]	[illegible]	Jakarta	C	[illegible]	[illegible]	Nicosia	S	17	63	Tunis	C	20	68
Cairo	F	22	72	Jersey	F	[illegible]	[illegible]	Oporto	S	[illegible]	[illegible]	Valencia	F	[illegible]	[illegible]
Cape Town	S	22	72	Jo'burg	F	[illegible]	[illegible]	Oslo	R	[illegible]	[illegible]	Venice	S	17	63
Caracas	C	28	82	Lima	–	–	–	Paris	S	[illegible]	[illegible]	Vienna	S	[illegible]	[illegible]
Casablanca	S	[illegible]	[illegible]	Lisbon	S	[illegible]	[illegible]	Peking	–	–	–	Warsaw	S	[illegible]	[illegible]
Chicago	F	17	63	London	F	13	55	Prague	S	[illegible]	[illegible]	Washington	S	14	57
Cologne	C	[illegible]	[illegible]	Los Angeles	S	[illegible]	[illegible]	Reykjavik	Sl	[illegible]	[illegible]	Zurich	R	[illegible]	[illegible]
Copenhagen	R	5	41	Luxembourg	F	12	54								
[illegible]	S	[illegible]	[illegible]	Madrid	S	[illegible]	[illegible]								
Dallas	C	[illegible]	[illegible]	Majorca	C	[illegible]	[illegible]								
Dublin	C	12	54	Malaga	S	20	68								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Efforts to ease US trade frictions

Continued from Page 1

month. The SII demands are the most difficult for the Japanese Government to respond to because of the political influence of vested interest groups.

However, government leaders recognise that substantial responses are now necessary in these areas. Mr Nakayama said: "The inclination of Congress towards protectionism and managed trade would become so decisive that the Administration could not restrain it unless appropriate measures are taken urgently on this matter."

Mr Mosbacher yesterday reached formal agreement with Mr Muto on a programme aimed at promoting Japanese imports and US imports in order to reduce the US trade deficit with Japan.

The agreement called for exchanges of data and information, market research, trade events and services to help US exporters penetrate the Japanese market. The two countries will also conduct research to find products that Japan might import from the US.

An official of the Ministry of International Trade and Industry quoted Mr Muto as telling Mr Mosbacher: "Japan intends to solve trade problems between the two countries as quickly as possible."

They agreed on an exchange of information via computer on items Japan wants to buy from the US and those the US wants to export. The two agencies will also exchange the results of market research surveys conducted in one another's countries and help promote trade promotion exhibitions and trade missions. They agreed to hold monthly meetings from this month.

THE LEX COLUMN

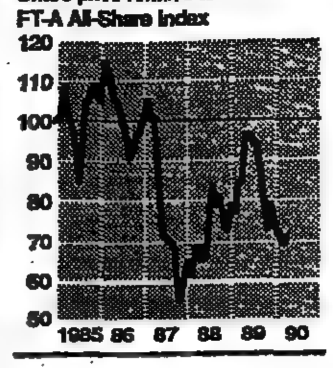
BAe not cleared for take-off

It is a telling comment on British Aerospace that when spelling out yesterday its ideas for coping with the world's dwindling appetite for weaponry, its four-point strategy forgot to mention motor vehicles. This may be a commendably sober appraisal of Rover's prospects. At £51m in 1989, Rover's underlying trading profits are still only 1.7 per cent of sales. It would be straining credibility to give Rover a starring role in BAe's strategy. But the omission is also a forceful reminder of how little the Rover kerfuffle has done to solve BAe's long-term problems.

Provided Honda takes its 20 per cent of Rover, BAe will have some insurance against it turning sour. But BAe's future will still rest on four businesses, defence, commercial aircraft, telecoms, and contracting, of which only the last named is a reliable cash generator. Even after the £68m BAe made in 1989 from selling its DAF and Istel stakes, and tax losses carried forward from Rover, BAe has accumulated only £250m of retained earnings since 1985. This is not a strong base for competing with Daimler-Benz.

The pat answers are that BAe is not trying to beat all its rivals, but to join them in partnerships; and that its UK real estate riches will see it through. On the former point, Airbus gives grounds for caution. On the latter, when BAe bought Arlington, it was not turning itself into Land Securities, with a rich stream of safe rentals, but making itself more of a developer, exposed to the UK property cycle's vagaries.

British Aerospace
Share price relative to the FT-A All-Share Index



SmithKline

It was hard to see why the markets got excited enough about SmithKline's figures yesterday to knock 5 per cent off the shares. It is far too early to assess how the merger is working and the higher-than-expected restructuring charge of £500m may simply indicate the potential scope of the cost savings. Nor did the figures on trading performance contain any startling revelations, only the encouraging news that Augmentin sales had been augmented by exploiting the combined sales force. The long term problem of replacing Tagamet has yet to be convincingly answered, but it is at least plausible that several moderately-sucessful drugs will arrive to fill the gap.

Investors may be surprised to find that one of the world's largest drugs companies has a negative net worth, but then on US accounting principles the balance sheet would appear fine while the earnings would look sick. Assuming that cosmetics is sold for a reasonable price and the Bovril interests for £150m, gearing should fall (from infinity) to 100 per cent by the end of 1990. Interest cover will be five to six times this year. But even by the time of next year's results, it will only be possible to have a very preliminary impression of the merger's success. Such a long term horizon may be beyond the City's patience to contemplate.

BTR

The BTR profit machine continues to purr along. It has joined the handful of UK companies making pre-tax profits of over £1bn a year, and its 26 per cent rise in 1989 earnings per share, with similar sort of growth in dividend, are much in line with its long-term averages. Its legendary commitment to margin improvement, working capital management, and productivity growth is as impressive as ever. But its substantial increase in capital spending suggests that it has been taking to heart the criticisms that it has been relying too heavily on cost-cutting to generate long-term organic growth.

However, 1990 is going to be a more severe test. Many of the economies in which BTR operates are slowing, its tax rate is rising and currencies are working against it. Add in the fact that the room for substantial margin improvement from the latest clutch of acquisitions is almost exhausted and its earnings may grow at only half last year's rate. But this could all change with another chunky acquisition and a prospective multiple of 10 contains little premium for this possibility.

Hillsdown Holdings

Hillsdown's shares have underperformed the FT All-Share Index by more than 30 per cent over the last two years as the company has fallen out of favour with the City. It did not enhance its image with yesterday's results announcement. Pre-tax profits matched the forecasts of £195m, but only after including around £10m of surprise pension holiday benefits.

That said, the company's prospects are far from gloomy. This year will see a full contribution from Premier and the poultry division should pick up as the public forgets salmonella. The Premier purchase is part of a gradual shift towards added value, higher margin businesses and it also altered the group's focus more clearly towards food. Both trends should eventually help the group's rating, currently languishing at around 7.5, assuming £235m-£240m of pre-tax profits this year. But the best hope for the shares is a fall in interest rates, which will relieve worry both about the 60 per cent gearing and the furniture and property divisions. However, Hillsdown would be wise not to surprise the market again.

Beazer

Few companies generate as much emotion as Beazer and its interim results have done little to heal the rift, notwithstanding yesterday's rise in the share price. This stock is one for the gamblers and a prospective p/e of around 7, and a similar percentage yield, do not properly reflect the risks involved.

Admittedly, a 16 per cent rise in fully diluted earnings per share is not far short of its long-term average and a 10 per cent dividend increase is a confident gesture from a company whose net debt is 2.3 times its stock market capitalisation. The 15 per cent drop in the net interest charge also looks encouraging. But add back some of the special items and the interest cover looks even thinner than it seems at first sight. Beazer may have bought well in the US, but it is not hard to imagine the combination of circumstances which could threaten its viability. Hence the brave talk about floating off bits of its US operations.

FINANCIAL TIMES

COMPANIES & MARKETS

Thursday March 15 1990

INSIDE

Glaxo steels itself for an ulcer alternative

A stomach bug is throwing a cloud over the progress of Glaxo, which today reports its half-year results for 1989-90. Almost one-fifth of the developed world's population suffers an ulcer at some point, and Glaxo has had the answer for many. It produces Zantac, an anti-ulcer product which is the world's best-selling medication. But the development by a Swedish company of an alternative drug could have a big impact on Glaxo's fortunes. Andrew Baxter and Peter Marsh report. Page 28

On your marks, set, go

European computer companies must sharpen their weapons againt the US and Japan, Vittorio Cassoni (left), managing director of Olivetti, warned this week. Consolidation and restructuring would continue in Europe he said as competition intensified. Mr Cassoni was speaking a little more than a month before Olivetti publishes its results for 1989, a year which has proved traumatic to almost every computer manufacturer in Europe and the US. Page 18

The picture of health

The art market boom is alive and well, and Christies International, the auctioneers, are certainly healthy on it. Sales for the first time passed the £1bn ($1.6bn) mark last year, increasing 71 per cent to £1.33bn. Christie's bigger competitor, Sotheby's Holdings, listed in London and New York, also announced an 82 per cent increase in net income to $113m ($62m). Clare Pearson reports. Page 25

Mexico blooms with confidence

Mexico is looking for flower power. The rolling hills of Guerrero, Mexico, Puebla and Queretaro states are bright with splashes of colour from the blossoming flower industry. Until recently, Mexico's flowers were strictly for local consumption. But that has changed and its young flower export industry grew at a great rate in the 1980s and supporters expect to see Mexico become a world competitor in the 1990s. Page 30

Selling all options

The Spanish have been trying hard in Latin America's telecommunications markets. The $391m offer by Telefónica of Spain to buy a Chilean telephone company is the latest move, and could be the most significant. Telefónica, much maligned at home for poor service, is under pressure from EC moves to open up the market to competition. The Spanish company has identified a potentially life-saving market in Spain's old colonies, and it needs all the breaks it can get, writes Peter Bruce. Page 21

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				BP	957	+	49.4
Rises				BP France	187.8	+	11.3
Brown Boveri	625	+	10	**Falls**			
Ind Werke	462	+	11	Ins Merieux	5610	–	221
Spring Vig Rg	860	+	30	SCOA	38.5	–	1.6
Falls				Sogerap	512	–	22
Daimler-Benz	890	–	11	**TOKYO (Yen)**			
Hochtief	1370	–	23	**Rises**			
Preussag	407	–	6	Japan Mat Chem	1460	+	200
NEW YORK ($)				Sanyo Shokai	1740	+	150
Rises				Tokyo Sini Met	1200	+	90
Exxon	46½	+	⅞	Totenko	2060	+	140
Merck	68⅛	+	¾	**Falls**			
West Pt-Pepp	46¾	+	5⅛	Daiichi Kogyo	1260	–	130
Falls				Rheon Auto Mach	3500	–	300
Cray Research	46	–	3⅛				
IBM	106⅛	–	⅛				
Monsanto	104½	–	5⅜				
PARIS (FFr)							
Rises							
Nav Mixte	1998	+	103.1				
LONDON (Pence)				Thorn EMI	714	+	20
Rises				Ultramar	371	+	6
Ashley(Laura)	57	+	4	Warburg (SG)	460	+	6
BICC	438	+	10	**Falls**			
Braithwaite	185	+	16	BTR	414	–	8
Brit Aerospace	505	+	20	Calor	298	–	11
Brit Airways	203	+	4	Hillsdown	246	–	7
Haw Siddeley	622	+	4	Smithkln Beech	500	–	30
Rank Org	767	+	13	United Biscuits	315	–	4
Rolls Royce	180	+	4				
Sthrn Water	146	+	7				

Colin Southgate: pipped at the post by MCA

MCA buys Geffen Records

By Alan Friedman in New York

MCA, the big Hollywood entertainment conglomerate that controls Universal Pictures and one of America's biggest record companies, yesterday surprised the US music industry by signing an agreement to acquire Geffen Records and its related music publishing businesses.

The acquisition, to be paid for by the issue of MCA stock, will be worth more than $500m to Mr David Geffen, chairman and founder of what was the last big independent record company.

The deal calls for MCA to issue to Geffen 1m new preferred shares which are convertible into 10m MCA common shares. This means that Mr Geffen will be MCA's largest single shareholder, with a 12.5 per cent stake.

Although this stake had a $545m market value based on yesterday's MCA share price of $54⅛, contractual limits on the number of shares Mr Geffen may sell over the next four years reduce the effective value to just over $500m.

The MCA-Geffen deal represents the most significant shift of power in the world recording industry since Sony of Japan bought CBS Records more than two years ago.

It will boost MCA's music revenues from about $765m to almost $1bn and will give the Hollywood group nearly 18 per cent of the US pop album market.

MCA will become the second leading US distributor – leapfrogging CBS Records – coming after Time Warner's WEA subsidiary.

At present MCA is fourth biggest with 9.8 per cent market share and Geffen, whose records are distributed by WEA, accounts for 8 per cent of WEA's commanding 40.4 per cent share.

But the Geffen distribution contract with WEA expires in December and MCA's own arrangement by which WEA distributes its records outside North America will expire in one year.

The record industry was surprised yesterday because MCA's takeover comes only days after Thorn EMI of Britain appeared set to buy Geffen in a cash-and-stock deal that would have been worth up to $750m. But Mr Geffen, who will stay on as chairman of his company, said money was not the issue.

"I have nothing but good feelings about Colin Southgate [chairman of Thorn EMI] and all the people at Thorn EMI," Mr Geffen said yesterday. He also said that MCA and Geffen would have $150m of combined non-US record revenues and would explore all options for a new distribution deal once the Warner contracts expire.

Geffen, formed just 10 years ago, is strong in rock music, while MCA is the leading US record company for urban music and a leader in country music.

MCA recorded a $191.8m net profit on $3.4bn of 1989 consolidated revenues. Geffen's 1989 sales totalled $225m.

GEC to take Plessey's US aerospace and defence divisions

By Michael Skapinker in London

MR NICHOLAS Ridley, the Secretary of State for Trade and Industry, yesterday gave Britain's General Electric Company (GEC) permission to take over virtually all the US defence and aerospace activities of Plessey, the company it purchased jointly with Siemens of West Germany last September.

His decision strengthens the view that GEC and Siemens are aiming for a clean carve-up of Plessey, rather than the series of European joint ventures they spoke of when they launched their joint bid in 1988.

GEC and Siemens have already discussed allowing the British company to take full ownership of Plessey's semiconductor and aerospace activities.

Yesterday's Department of Trade and Industry announcement allows GEC to acquire 100 per cent of Plessey Electronic Systems Corporation, a US defence electronics contractor; Plessey Dynamics Corporation, a manufacturer of aerospace components; and Plessey Materials Corporation, which makes radar-absorbent materials.

At the time of the bid, it was proposed that GEC should own 75 per cent of Plessey Electronic Systems and 51 per cent of the other two companies. Siemens would own the rest of the shares.

GEC and Siemens are expected to announce how they propose to divide Plessey at the end of this month. It has already been agreed that GEC will take over Plessey's avionics and anti-submarine warfare activities and Siemens its radar and communications operations.

The two companies also plan to sell Hoskyns Group, the computer services company in which Plessey has a 74 per cent stake, and Birkbys Plastics, Plessey's plastic injection mouldings unit.

This would leave GPT, the telecommunications group, as the only significant joint venture between GEC and Siemens. The original intention was that GEC would own 60 per cent of GPT, with Siemens owning 40 per cent. It is believed, however, that GEC might eventually allow Siemens to take full control of GPT.

Although Lord Weinstock, GEC's managing director, and Mr Karlheinz Kaske, Siemens' chief executive, said last year that they intended to use their bid as a platform for joint ventures, Sir John Clark, Plessey's chairman, alleged that the joint bid was "no more or less than a simple, old-fashioned attempt to carve up one of the leading British electronics companies."

British Aerospace sees the future in 3-D

Paul Betts on the group's search for a US dimension

Professor Roland Smith, chairman of British Aerospace, has his sights set on the US. "It's a sunny, more relaxed place," he said yesterday as he announced that the group was exploring the US for strategic alliances.

BAe's links there are still relatively weak compared to its associations in Europe and in Japan through the Rover-Honda alliance. But Mr Dick Evans, the group's new chief executive, explained: "We do need a US dimension. We've developed one in Europe and with the Japanese, but we feel we also need a strategic partnership in the US."

BAe is already associated in a series of specific joint venture projects in the US with American aerospace and defence groups. It produces Harrier and Hawk jets with McDonnell Douglas and is developing an advanced short-range air to air missile (Asram) with Hughes. However, the UK group wants a broader strategic relationship with a US partner. "It does not necessarily have to be in the aerospace business but it could involve any of our diverse activities," Mr Evans said.

BAe is also considering manufacturing in the US. Although profits and sales have grown during the last five years, the company's present concentration of manufacturing in the UK has been a weakness in two ways.

First, the company is vulnerable to the sterling exchange rate. Second, it is dependent on UK labour relations. The recent 17-week strike at three of its plants badly disrupted production of European Airbus aircraft as well as some of BAe's own civil and military aircraft.

The strike about working hours appears to have focused BAe's attention on spreading the company's manufacturing base around the globe, especially since the company is one of the UK's biggest multinational enterprises.

BRITISH AEROSPACE yesterday reported a 29 per cent rise in pre-tax profits to £333m last year from £259m a year earlier. It also defended its takeover of Rover claiming that the negotiations for the car-group had been conducted openly and in good faith.

Rover contributed £84m to BAe's £441m trading profits last year compared with £50m the previous year on overall company trading profits of £360m.

Mr Dick Evans, BAe's chief executive, said the strike over working hours at three BAe plants had cost the company £28m last year. This cost was offset against the £68m gains last year from the sale of company stakes in DAF and Istel. Details, Page 26

Mr Evans also confirmed there would be further rationalisation of the group's UK manufacturing plants to improve overall productivity in aerospace and defence.

Short term, BAe may subcontract some of its Airbus work outside the UK as part of a production recovery programme following the strike. The group is again eyeing the US where considerable manufacturing capacity is available with a number of aerospace groups offering production operations at attractive prices. BAe hopes the catch-up plan will help minimise losses caused by the strike this year. "The production recovery programme is the order of the day," Mr Evans said yesterday.

The programme could also help BAe's overall relationship with its other Airbus partners, which have criticised the UK group's handling of its labour dispute.

Both Mr Evans and Prof Smith acknowledged that the French partners had claimed compensation from BAe but said they felt these claims were not valid. "These threats are not particularly realistic," said Prof Smith. "Airbus is a partnership and we are all expected to behave as partners and not take legal action against one another." BAe could face penalties of up to $120m if the Airbus partners were to press their claims.

BAe's two top officials also reaffirmed yesterday the importance of Airbus for the group's future development.

Mr Evans said Airbus would probably be one of Europe's biggest companies in a few years. BAe lost £45m (£80m) on Airbus last year but expects the European aircraft programme, buoyed by record orders, to start contributing profits by the mid-1990s if not earlier.

The growth of Airbus is expected to help BAe's strategy to lessen its dependence on defence. A series of diversifications and acquisitions in recent years has already tilted the balance in group sales in favour of non-defence related activities. These accounted for 58 per cent of the company's £9bn turnover last year. Defence still accounts for 68 per cent of profits.

With Rover, Mr Evans said the UK group was moving towards a strategic alliance with Honda of Japan, while, in Europe, Prof Smith continues to seek closer ties between BAe and Daimler-Benz.

Although Daimler-Benz announced last week it was discussing broad co-operation with Mitsubishi of Japan, the German group is understood also to have renewed its interest in closer ties with BAe.

But strategic alliances take a long time to establish, Prof Smith said. Even BAe's merger of its guided weapons business with those of Thomson of France would only be consummated early next year.

BAe, however, clearly intends to treat the forging of international alliances as a priority – and the US is at the front of its mind. "These new partnerships will be product, market or business-led rather than the specific project collaborative deals in which we have been involved over the past 25 years or more," Prof Smith said.

New alliances are likely to span the company's increasingly broad range of activities from aerospace and defence to cars, communications, construction and property. "We have a number of ideas. Watch this space," Prof Smith said.

Prof Smith wants a broader strategic alliance in the US

Beazer may float some US units

By John Thornhill in London

BEAZER, the UK housebuilding and construction group, is considering floating off parts of its US operations, including the Koppers business which it acquired amid much controversy in 1988. The purpose of the move would be to drive down debts of £1bn ($1.6bn).

Announcing a 16 per cent increase in interim pre-tax profits yesterday, Mr Brian Beazer, chairman, said he wanted to reduce the company's gearing levels – which are currently above 90 per cent. But he had concluded that it would not be sensible to do this by selling off individual businesses.

He said Beazer might therefore sell a minority stake in one of its operations, such as Gifford Hill or BM&S (formerly Koppers, the aggregates group). An alternative might be to obtain a separate listing for them. Both companies were listed on the New York Stock Exchange before their acquisition.

Beazer's move to buy Koppers for $1.8bn in June 1988 was criticised at the time for the burden of debt it imposed on the company. And despite it being a high priority, Beazer has subsequently found it difficult to reduce its gearing level (the ratio of net debt to shareholders' funds).

At June 30 last year net debt stood at £1.09bn and was only reduced to £1.05bn by the end of 1989. This resulted in a net interest payment of £47m (£14.3m) which was covered less than two and a half times by the operating profits of £108.7m (£54.5m) announced yesterday.

Mr John Matthews, deputy chairman, conceded it would be difficult for Beazer to cut its debt by organic means and that it was considering other options of doing so with its advisers County NatWest and Shearson Lehman.

Mr Matthews said that allowing outside investors to take a stake in its US activities would provide greater flexibility to raise money to develop their businesses. "This is something we would find difficult to do by ourselves with £1bn's of debt around our neck," he said.

"You can get an investor or the market to take a stake and which route one goes down depends on what interest there might be from a private investor and how strong the market is." Any such move would probably take place within a year or two after consulting shareholders, he said.

Analysts speculated that Japanese companies might be particularly interested in Beazer's US operations as many of them were keen to break into the US aggregates market. Beazer already has several joint ventures with Japanese companies, such as C. Itoh. Details, Page 26; Lex, Page 16

Connaught executives sacked

By Bernard Simon in Toronto

THE FRENCH pharmaceutical group, Institut Mérieux, controlled by Rhône Poulenc, has dismissed the entire senior management, including the chief executive, of Connaught BioSciences less than three months after taking control of the Canadian vaccine maker.

Mérieux bought Connaught after one of the most controversial takeover battles for a Canadian company and the dismissals could result in another political row.

Mr Brian King, Connaught's chairman and chief executive, confirmed yesterday that he as well as the company's chief financial officer, secretary and treasurer, and two other vice presidents were given notice at the end of February.

Mr King, who was among the most ardent supporters of Mérieux's C$925m (US$785.2m) bid for Connaught, declined to give any reasons for his dismissal.

A former colleague speculated yesterday that "Mérieux wants to have their own people in the company."

The French group may have been influenced by Mr King's vigorous opposition to an earlier attempt to increase its shareholding in Connaught.

Besides facing a rival bid from a Swiss-US consortium, Mérieux found strong opposition among Canadian nationalists, who feared foreign control of Connaught would weaken Canadian technology.

Connaught is one of Canada's few indigenous pharmaceutical companies, and is credited with the discovery of insulin.

In return for government approval of the deal, Mérieux agreed, among other things, to appoint five Canadians to the board of the combined company and eventually to offer up to 49 per cent of its shares to Canadians.

Depending on the replacements for the dismissed officials, Mérieux could find itself caught up in another political row.

There were indications yesterday that Mr King and his colleagues want to alert Ottawa to the events at Connaught, particularly if an all-French management team is installed.

Mr King, 57, is a native Australian who has worked for Connaught and its predecessor companies since 1978.

He lobbied in favour of the Mérieux bid, arguing that Connaught needed a strong partner if it was to prosper as Canada's leading indigenous pharmaceutical company.

"I continue to believe that the industrial benefits of combining Connaught and Mérieux will be very substantial," Mr King said yesterday.

INTERNATIONAL COMPANIES AND FINANCE

Sharp fall in Olivetti net earnings

By Haig Simonian in Milan

NET EARNINGS at Olivetti, the Italian computers and office equipment group, fell heavily last year, leading to warnings of a lower dividend despite higher sales.

In a newspaper interview, Mr Vittorio Cassoni, Olivetti's chief executive, said earnings in 1989 had fallen by slightly less than the 45.7 per cent average decline posted by the 18 leading US manufacturers of computer hardware.

The news triggered a L80 fall in Olivetti's share price to L6,230 in Milan yesterday, with a further drop to L6,200 after hours.

The plunge in profits, which reflects the severe problems faced by many computer manufacturers, comes despite a 7.5 per cent rise in Olivetti's group sales to more than L9,000bn ($7bn) last year from L8,407bn in 1988.

Mr Cassoni gave no precise figure for profits in 1989, nor for the expected fall in the dividend. Net earnings in 1988 amounted to L356bn, while the company *paid a dividend of L340 a share.*

A decline in profits at Olivetti, which earlier this month announced the transfer of Mr Luigi Mercurio, a senior executive, from his post as head of its Olivetti Systems and Networks *(OSN) subsidiary* on account of unspecified "differing views on OSN strategies," had been widely expected.

But "the market didn't expect something as bad as this," said Mr David Roberts, an analyst on Italy at Barclays de Zoete Wedd in London.

Mr Roberts cut his profits forecast on the basis of the news to between L220bn and L225bn for 1989.

He also warned of a further likely drop in the group's share price.

Italian group sees logic of consolidation

Alan Cane on Olivetti's strategy in the face of growing competition

Continued consolidation and restructuring in the European computer industry is inevitable as indigenous companies face up to intensifying competition from the US and Japan, warned Mr Vittorio Cassoni, managing director of leading Italian manufacturer Olivetti, this week.

He was speaking a little over a month before Olivetti publishes its results for 1989, a year which has proved difficult for most computer manufacturers in Europe and the US.

Mr Cassoni said the merger of Siemens' and Nixdorf's computer interests was an early example of consolidation. It was being driven by three separate pressures.

● European manufacturers were failing to take advantage of a buoyant home market and were growing less rapidly than US and Japanese competitors.

The US market was growing only slightly, if at all. The top 18 US companies had grown at a rate of only four per cent on average last year and much of that growth came from Europe. Mr Cassoni warned further: "The US market has represented the main vehicle for growth for Japanese companies. If that stops or slows down we have to expect more aggressive competition from Japan.

"So European companies have to sharpen their weapons."

● There was intense pressure on margins. Gross profit margins projections had needed to be revised downwards from only a year ago, he said. Last year's problem was a compression of profit margins that could not be balanced quickly either by revenue growth or by cutting overheads.

Olivetti, for example, lost 2,300 jobs in 1989 and intends to lose 3,000 in 1990. Mr Cassoni thought there would be further losses next year, although on a smaller scale than in the two preceding years.

● The arrival of the single European market after 1992: "The 1992 process will definitely dilute the advantages that derive to European companies from the privileged relationship they have with their domestic market."

Mr Cassoni said he believed that the strategy Olivetti put in place last year involving the reorganisation of the company into four divisions – Olivetti Office, Olivetti Systems and Networks, Olivetti Information Services and Olivetti Technologies – was ensuring that the company was now growing faster than the market worldwide.

He would not comment further on the reasons for the resignation last week as head of Olivetti Systems and Networks of Mr Luigi Mercurio, beyond saying there had been disagreements on detailed points of strategy: "It was not a disagreement at the macro strategic level, but on specific issues."

Vittorio Cassoni: European groups must sharpen weapons

Mr Mercurio was staying with Olivetti and there was no personal animosity. Mr Cassoni has now added Systems and Networks to his responsibilities as Olivetti managing director.

Mr Cassoni said that intensifying competitive pressure from the US and Japan presented European companies with a dilemma. They were dependent on Japan for the technologies involved in laser printing and facsimile transmission, and on the US for basic computer hardware such as microprocessor chips and software such as computer operating systems. "The only thing we Europeans can do is to ensure privileged access to those technologies through strategic relationships with the companies that control them."

He pointed out that, as well as joint projects with the chip manufacturer Intel and microcomputer software house Microsoft, Olivetti had a joint venture with the Japanese company Canon for photocopiers and laser printers, Sanyo for facsimile machines and YE Data for lap-top computers.

Production of Olivetti's new super microcomputer, based on the fastest available chip from Intel, had been constrained by problems with the chip: "I wish we could ship as much of the product as we are selling," Mr Cassoni said wryly.

He reiterated that Olivetti intended to become the leading company in Europe in computing services, a $30bn market growing at 25 per cent a year *in which no company has more* than a five per cent share.

President of Burger King operations in US quits

By Roderick Oram in New York

MR RON PETTY has resigned as president and chief operating officer of Burger King's US operations, 14 months after the fast-food chain was taken over by Grand Metropolitan of the UK as part of its acquisition of Pillsbury, the US foods group.

Mr Barry Gibbons, the GrandMet executive installed as Burger King's chairman and chief executive officer with the *task of turning* round the troubled company, said in a statement that he and Mr Petty decided after the takeover that "we would get right down to the urgent tasks at hand and take a year or so to decide whether we wanted to work together long term. We have had that review and decided to change."

Mr Petty, a Texan with a long career in Burger King's operations, was the most senior executive Mr Gibbons had retained from the previous management.

Several leading franchisees said yesterday that they felt there was a culture clash between *Mr Petty and the new* UK executives.

That was "never an issue with me and I don't think it was with Ron," Mr Gibbons said in an interview. "I'd never have imagined a Lancastrian and Texan could be so similar on ideology."

The extensive revamping of *Burger King's marketing,* products and operations which Mr Petty had helped devise and implement over the past year had begun paying off in this quarter, Mr Gibbons said.

"It's fair to say that most of the programmes didn't get going until November or December," but since then Burger King has been having its best quarter in three years with "significant organic growth."

Mr Dick Fors, head of the newly reconstituted franchisees association, said his 50 or so restaurants had been enjoying revenue growth in the "low double digit" range in recent months. He believed his experience was typical of company-wide trends.

Industry figures show that Burger King's US market share slipped again last year.

Mr Gibbons said that the company had stemmed the erosion last year and had been "gaining share hand over fist" so far this year. He declined to give any details.

An advertising campaign launched in September drew sharp criticism from some advertising executives and franchisees.

BCE eyes Kinburn group

By Robert Gibbens in Montreal

MR Roderick Bryden, the Canadian lawyer-entrepreneur, is negotiating to sell control of a group with annual sales of C$1.7bn (US$1.4bn) and 8,000 employees to BCE, Canada's largest conglomerate, because his personal holding company is in default on more than C$800m of loans.

Mr Bryden said talks with BCE and a banking group, led by the Royal Bank of Canada, on restructuring his Kinburn group had not worked out.

Mr Bryden, a former senior federal bureaucrat, has spent the past decade building up the Kinburn group with BCE's support.

His holding company, Kinburn Corp, controls SHL Systemhouse, a systems integrator and computer retailer that which owns Computer-Group, Paperboard Industries, Accugraph and many other smaller companies.

Systemhouse is publicly traded and has sales of more than C$600m annually and is profitable, while Paperboard has annual sales of around C$700m.

Kinburn pledged its interest in all these companies as col*lateral for C$816m in loans,* including C$415m from BCE and the rest mainly from the banking syndicate. Technically the bank loans stand ahead of the BCE loans, but all come due next month.

BCE confirmed that talks were under way with Kinburn and the banks. It already *holds an option to buy 49 per cent of Kinburn.*

Toys 'R' Us posts record year

By Karen Zagor in New York

TOYS 'R' US, the big US chain of toy stores, yesterday announced another record year, in spite of essentially flat earnings in the second and third quarters.

The Paramus, New Jersey, company, which has expanded strongly in the US and Europe in the last decade, said its latest fourth-quarter earnings rose to $241.8m or $1.23 a share from $196.6m or $1 a share a year earlier.

Sales in the 1989 quarter grew to $2.33bn from $1.89bn the previous year.

For the whole of 1989 the company had net earnings of $321.1m or $1.64 a share against $268.0m or $1.36 in 1988. Sales in the year grew to $4.79bn from $4bn.

The results for the latest quarter were helped by strong Christmas sales. Sales in the eight-week Christmas season, from October 30 to December 24, rose 22.7 per cent to $2.02bn from $1.65bn a year earlier.

The company, which claims to be the largest speciality toy retail chain in the world, said it will open between 45 and 50 toy stores in the US and another 25 internationally in 1990, in addition to more than 25 new Kids 'R' Us clothing stores. The company operates 404 toy stores in the US, 74 overseas and 152 children's clothing shops.

In a letter to shareholders, Mr Charles Lazarus, chairman and chief executive, said: "During a year of retailing uncertainty filled with promotional gimmickry, our stores throughout the US experienced outstanding Christmas business by staying with our concept – the best selection of merchandise, stocked in-depth, at everyday low prices."

AT&T in alliance with Tandem

By Louise Kehoe in San Francisco

AT&T, the US communications group, has formed a strategic alliance with Tandem Computers, the leading manufacturer of fault-tolerant computers.

The companies will jointly develop and market networked computer systems based on Tandem's recently introduced Unix computers and AT&T's networking technology.

The initial focus of the joint marketing effort will be the telecommunications industry and US government markets.

The partners aim to increase the availability and acceptability of Unix-based fault-tolerant computers, and will jointly develop new systems and software, the companies said. Tandem and AT&T have targeted the market for networks of computer systems within companies for "mission-critical" applications in industries that rely on high-performance data processing.

Fault-tolerant computers are also widely used in banking and airline reservation systems that involve large numbers of on-line transactions.

The market for this type of computer is valued at $8bn and growing rapidly, according to market analysts. "Mainframe and minicomputers are under assault," declared Mr Richard McGinn, president of AT&T Computer Systems. "Customers are looking for non-traditional solutions, based on open systems rather than proprietary systems."

The AT&T/Tandem Computers alliance represents a competitive challenge to IBM and its fault-tolerant computer partner Stratus Computer.

For AT&T, the partnership is another agreement that augments its computer product line. AT&T has a joint marketing arrangement with Pyramid Technology, a manufacturer of mini-supercomputers, and has linked with Intel to co-develop and manufacture a line of personal computers.

BTR payout up as profits top £1bn

By David Owen in London

PRODUCTIVITY improvements coupled with contributions from newly-acquired businesses pushed BTR, the UK-based industrial conglomerate, comfortably over the £1bn ($1.6bn) threshold for pre-tax profits yesterday, in spite of rising finance costs.

Mr John Cahill, chief executive, said that 1990 could be the year in which the company found a vehicle through which to float its extensive US interests, although it had not located the right one yet.

Mr Cahill said he would prefer to achieve this via a friendly partial tender, followed by the sale of some businesses in return for shares. "Our objective would be to finish up with a similar structure *to the one we have in Australia*. One of the pluses of a downturn is that companies will become available at good prices."

Pre-tax profits were ahead 32 per cent at £1.08bn compared with £820m in 1988. Turnover climbed 28 per cent to £7.08bn from £5.47bn. The shares fell 8p to 414p, reflecting profit-taking and the results being marginally below analysts' expectations.

Earnings per share rose 26 per cent to 36.1p, compared with 28.7p in 1988. A final dividend of 8.3p was recommended, making a total of 15p, up 25 per cent.

Return on sales, measured by profits before interest and tax, improved to 17.6 per cent from 16.7 per cent. This outstripped the levels achieved prior to the acquisition of the Thomas Tilling Group, with its complement of low-margin businesses, in 1983. The group said that its return-on-sales hurdle is pitched at 20 per cent.

The three principal businesses acquired were Schlegel Corporation, a US-based maker of environmental seal systems, Feltrax International, an Antipodean manufacturing company, and the measurement and flow control activities of Rockwell International.

These were responsible for 77 per cent of sales growth and 43 per cent of the improvement in profit before interest and tax. "In 1990, there is a lot to come from acquisitions in terms of margin improvement," said Mr Cahill. BTR is looking for "bolt-on" acquisitions for its Hansen transmissions.

Finance costs were up 69 per cent to £159m, reflecting a near tripling of net debt from year-earlier levels to £1.11bn. This left gearing at a "comfortable" 46 per cent. Capital spending, financed from internal cash-flow, was ahead sharply at £437m. According to Mr Christopher Bull, finance director, this level is likely to be maintained in the year ahead.

Europe accounted for £459m of trading profits, compared with £401m the previous year.

Mr Cahill said that he had not spoken to Kohlberg Kravis Roberts, the leveraged buy-out specialist which was cleared last year to acquire up to 15 per cent of BTR, for four-five months.

Statoil replaces two executives from 'old guard'

By Karen Fossli in Oslo

STATOIL, Norway's state oil company, yesterday announced the exit of the last two executives considered part of the "old guard" under Mr Arve Johnsen, the company's former autocratic president.

Statoil has undergone a whirlwind transformation in the last two years following a NKr6.4bn ($965.3m) budget overshoot on the Mongstad terminal and refinery expansion project. Since Mr Harald Norvik, Statoil's president, took the helm in May 1988 he has replaced top executives in each of the company's divisions.

Mr Martin Bekkebeien, president of exploration and production who has seen a 15-year career with the company, is to be replaced by Mr Stig Bergseth, 40, who has held several former executive positions with the company.

Mr Bekkebeien has asked to be relieved of his duties for a period of one year after which he is to return to what is described as a "central position" in the company. Statoil would not be drawn on details.

Mr Jakob Bleie, vice president of exploration and production, should have been in line to succeed Mr Bekkebeien, but instead has been shifted sideways to an as yet unnamed position within another division of the company.

Novo Nordisk above forecast

By Hilary Barnes in Copenhagen

NOVO NORDISK, the Danish pharmaceuticals and enzymes group, yesterday announced a 10 per cent rise in pre-tax profits, slightly better than forecast, from a pro forma DKr953m ($145m) in 1988 to DKr1.05bn in 1989 – the first year since Novo and Nordisk Gentofte merged.

Sales rose 16 per cent to DKr7.33bn. Mr Mads Ovlisen, joint chief executive with Mr Henry Brennum, said: "We have been through an incredible reorganisation, the merger itself, a divisionalisation and decentralisation of group staff functions, but even so earnings are up to expectations and better than if you add the pre-merger budgets of the two firms together."

The markets were not so happy, trading the B share price down DKr3 in Copenhagen to DKr326.

The cloud on the horizon is a 6 per cent appreciation of the Danish krone against the currencies in which Novo invoices in the first two months of the year. If this situation persists throughout the year "it will be difficult to achieve an increase in pre-tax earnings in 1990," the board said.

Earnings after tax were up by 6 per cent last year to DKr746m and earnings per share increased from DKr22.24 to DKr23.58. A 20 per cent dividend was proposed.

Sales by the health care group increased by 19 per cent to DKr4.12bn, with insulin sales up by 15 per cent. World-wide market shares for insulin appear to have been maintained, according to preliminary information, the management said.

Sales by the bioindustrial group, which includes industrial enzymes, increased by 19 per cent to DKr2.16bn. There were no staff cuts as a result of the merger, with all staff being redeployed if redundant in their previous operation.

● East Asiatic, the international trading and shipping group, increased profits after net financial items from DKr665m to DKr741m and pre-tax earnings from DKr740m to DKr941m after substantial extraordinary income. An unchanged 10 per cent dividend was proposed. Sales were virtually unchanged at DKr17.73bn.

Oerlikon books losses

By John Wicks in Zurich

OERLIKON-BUEHRLE Holding (OBH), the Zurich-based industrial and services group, last year booked operating losses of some SFr42m (US$27.6m), following a 12 per cent growth in consolidated turnover from SFr4.2bn to SFr4.75bn.

Last month the company had forecast that losses "would not decline to the extent expected." In October Mr Michael Funk, chief executive, had estimated the 1989 operating deficit at between SFr50m and SFr100m.

The cost of a large-scale corporate restructuring programme is seen as exceeding previous forecasts and reaching some SFr575m, due to "additional measures necessitated by intervening political developments."

This total includes devaluations of stock and plant.

Alfa Laval to lift dividend by 35%

By John Burton

ALFA Laval, the Swedish dairy equipment and process engineering group, reported a 34 per cent increase in profits after financial items to SKr1.4bn ($226m) in 1989.

The board proposed a dividend hike of 35 per cent to SKr5.25 per share from SKr3.90.

It predicted a 15 per cent rise in sales and earnings in 1990.

Invoiced sales rose by 23 per cent to SKr15.2bn in 1989.

Ugine plans takeover of Jones & Laughlin

By Our Industrial Staff

UGINE, a unit of Usinor-Sacilor, the French state-controlled steel producer, is planning to buy all the outstanding shares of Jones & Laughlin, the number two US stainless steel maker.

Usinor said that J & L's board had reviewed the proposed takeover and would present it to shareholders for approval. The deal, the price of which was not disclosed, is also subject to approval by Ugine's board of directors and US antitrust officials.

The deal would be one of the most striking examples in the series of takeovers and alliances which is reshaping part of the ownership structure of the steel industry.

It also appears to be the biggest direct investment by a European steelmaker in the US industry. Until now, Japanese steel companies have been the biggest investors.

J & L, formerly the stainless steel division of LTV, was bought by a group of executives and other investors in 1986.

It recorded revenue of US$850m in the year ended September 30, largely from the production of three steel plants in Pennsylvania, Ohio and Michigan. Sales amounted to 270,000 tons of stainless steel plate, representing 22 per cent of the US market, Usinor said.

Usinor said Ugine produced 440,000 tonnes of stainless steel plate last year, selling only speciality products in the US that represent about 2 per cent of the US stainless market. Usinor said a deal would help its unit make new inroads into the US.

The move follows an aggressive investment plan by Usinor that totalled around FFr4bn ($2.3bn) last year, up from FFr3.3bn in 1988. This would be the steel group's first significant expansion in the US – the second largest national steel market.

In 1988, the latest year for which results were available, Usinor-Sacilor had consolidated net profit of FFr4.63bn, following a string of losses totalling FFr42bn between 1984 and 1987.

FN rejects co-operation with Swedish pulp group

By John Burton in Stockholm and Andrew Fisher in Frankfurt

THE supervisory board of Feldmühle Nobel (FN) made clear yesterday it had no intention of co-operating with SCA, the Swedish pulp and paper company which last week purchased a 5 per cent stake in the West German engineering and forest products group.

SCA has said it wants to talk with Veba, the conglomerate which controls FN, about possible co-operation with FN, especially in graphic paper. But FN said it saw no advantage in co-operating with another paper concern.

Earlier Mr Sverker Martin-*Lof, SCA president, said discus*sions were continuing on closer co-operation with FN's Feldmühle unit, one of Europe's biggest paper makers. He did not rule out the possibility that SCA might make a bid for majority control of the paper subsidiary.

The moves came as SCA, Sweden's second largest forest products group, reported a 4 per cent rise in profits after financial items to SKr2.7bn ($435.4m) in 1989, but predicted that earnings could fall by 10 per cent this year.

A dividend increase of 20 per cent to SKr2.90 from SKr2.42 was proposed.

Feldmühle Nobel plans to raise DM325m ($191m) through a one-for-seven rights issue to help finance its investment programme.

Veba, the energy group which owns just over 50 per cent of FN, said it would take up its rights. The issue will take place next month.

FN's shares closed at DM565 yesterday, down DM5 from the previous day.

Sales climbed by 19 per cent to SKr24.8bn in 1989.

SCA is the second Swedish *forestry company in two days* to predict a fall in profits for 1990, following Stora, Europe's biggest pulp and paper group.

Although SCA's sales of forest and paper products increased by 27 per cent to SKr11.2bn in 1989, operating profit fell by 2 per cent to SKr1.72bn.

SCA blamed this on high production costs in Sweden and surplus capacity for newsprint and linerboard. Price rises to compensate for higher costs in Sweden were limited to market pulp and lumber products.

SCA expects that profits from newsprint and linerboard will continue to decline in 1990 as demand weakens in Sweden, the UK and North America. Rising production costs in Sweden will also force SCA to accept lower profit margins for exported products, including pulp.

Molnlycke, SCA's hygiene products group, saw its operating profits remain virtually unchanged at SKr703m since costs for pulp raw material, used in such products as nappies, rose by 20 per cent or SKr250m. Sales for this division, SCA's biggest, climbed by 4 per cent to SKr10.8bn.

Sales of the SCA packaging group rose by 78 per cent to SKr3bn, while operating profit increased by 58 per cent to SKr236m primarily due to companies acquired during the year.

SCA forecasts that earnings for both Molnlycke and the packaging group would improve this year.

Climbing production costs, high interest rates and the one-time effects of capital investments will cause the drop in earnings this year, although the decrease could be less than 10 per cent if pulp prices fall. SCA is a net buyer of pulp.

Arbitration over Enimont sought by Montedison

By John Wyles in Rome

MONTEDISON yesterday sought arbitration in its battle with Eni, the Italian state energy group, over the future strategy and control of their chemicals joint venture, Enimont.

The move followed an angry meeting of the Enimont board on Tuesday when Eni presented a detailed rejection of Montedison's proposals for basing Enimont's future on the production of specialised chemicals.

At the same time, the state company countered Montedison's proposal for a L10,250bn ($8.09bn) capital increase with a suggestion that the capital base should be strengthened by L4,000bn.

The arbitration procedure could take nearly four months to produce a verdict, and its use does not, in any case, imply a search for a compromise solution.

Montedison was reluctant to clarify its purpose yesterday.

It appears that Mr Raul Gardini, the company's president, is seeking a declaration that recent moves by Eni are in breach of Enimont's founding agreements signed in December 1988.

Montedison complained of "a long series of non-compliance and of violations of the agreements" which had been committed "in a climate of general and artificial conflict contrasting with the spirit of the agreements."

Kymmene and Stora seek French group

By Enrique Tessieri in Helsinki

KYMMENE, one of Finland's largest forest groups, has joined talks with Stora of Sweden to acquire ownership of Chapelle Darblay, the large French newsprint group.

According to Chapelle Darblay officials the company is presently negotiating with "a number of paper companies."

Unconfirmed reports say that Mr Francois Pinault, the present owner of Chapelle Darblay, would be willing to sell the whole company for around FM700m ($120.7m).

Mr Gay Ehrnrooth, president of the board of Kymmene, confirmed yesterday that acquisition talks were going on with Chapelle Darblay.

INTERNATIONAL COMPANIES AND FINANCE

Fledgling Gulf market in need of public acceptance

Hunter Reynolds on the Bahrain Stock Exchange, struggling to overcome some teething problems

With five minutes to go before the end of the day's trading session, a sense of calm pervaded the floor of the Bahrain Stock Exchange. Less than a dozen dealers, most in traditional Arab dress, stood on the floor of the exchange – little bigger than a classroom – chatting and drinking coffee out of plastic cups.

Indeed, it looked like most of the day had been lacking in excitement. The large board on the far wall of the floor charting all 29 listed companies showed that six deals had been closed for shares worth a total of BD30,000 (US$11,270).

My visit last Tuesday might have come on a particularly slack day, but official figures show that in February the average number of shares traded was a mere 285,000, with a value of BD62,000.

For many years Gulf states have talked about the need to develop their own capital markets in a bid to reverse the region's huge capital outflows and to harness the cash generated by oil to develop domestic economies.

Last year Bahrain and Oman established fledgling stock exchanges, joining the only existing stock market in Kuwait where trading has remained thin since the al-Mannakah crash in 1986. Local analysts say that the difficulties faced by these ventures reflect the problems in establishing fully-fledged capital markets in the Gulf.

"There is very little public confidence in our market," explained Fuad Rashid who heads Gulf Securities, the largest of six brokers who operate on the floor of the Bahrain exchange. Bahrainis lost a lot of money in the al-Mannakah crash and are no longer interested in the local market.

Mr Rashid's own confidence in the Bahrain market is slim. He uses the services of the Japanese securities house Nomura to invest his own money in the Tokyo market.

In particular, Mr Rashid complains about the lack of any market-makers, the absence of a primary market, and the failure of local banks and financial institutions to operate in the market.

The six local brokers who operate in Bahrain are having a hard time. Gulf Securities, which claims an 80 per cent market share, says it can just make ends meet. Others are failing to cover their costs.

Dr Fawzi Behzad, acting-director of the Bahrain Stock Exchange, concedes that the market has been slow to take off since it was established last June. "It's just a question of time before people become more interested," he said. In a bid to make things move on the exchange, the Government has approved the selling of some of its stakes in joint stock companies. The Ministry of Finance has failed as yet to publish a timetable for the divestitures.

For many years Gulf states have talked about the need to develop their own capital markets in a bid to reverse the region's huge capital outflows and to harness the cash generated by oil to develop domestic economies.

The stock exchange is hoping to convince banks to become active in the local market and to start portfolio management services and to set up mutual funds for its clients. Last month a joint committee was set up with the Kuwait Stock Exchange to discuss joint listings of Kuwaiti and Bahraini companies on both countries' exchanges. Talks on a similar deal with the Muscat Stock Exchange are also planned, Dr Behzad says.

The authorities are also studying plans to trade government Treasury bills and other bonds on the stock exchange. Trading of debt instruments should start next year, Dr Behzad believes.

An important test of public interest in the market will come later this year when Arab Banking Corporation (ABC) goes ahead with a US$250m flotation to finance its expansion into Europe, part of which will be placed through the Bahrain Stock Exchange.

Local bankers say that the Bahrain exchange's problems are symptomatic of the difficulties in setting up capital markets throughout the Gulf. They are sceptical that such markets can ever be developed properly.

"You can't make a river flow upstream," commented one senior executive at a local Arab bank. "If people want to invest outside, that's the way capital will flow."

Under existing rules, only Bahraini and Gulf Co-operation Council nationals can buy shares.

Limited rules on disclosure are seen as a big disincentive to local investors. Local companies are very tight on information, offering scant details of their true financial position, bankers say. In particular, information relating to unofficial payments made inside and outside companies which are a integral part of business operations in the Gulf are impossible to come by.

Information is, perhaps, the key to the difficulties faced by the Gulf's fledgling capital markets. Markets need and demand a free-flow of information. However, local analysts point out that in the conservative Gulf states, information is tightly controlled by governments. Often releasing the sort of sensitive economic information needed by markets is against the underlying interests of administrations.

Whether Gulf states are prepared to accept the challenges of real market needs in this respect remains to be seen.

The public sector has dominated Gulf economies. Increasing private participation in local economies could have profound political implications. As one Gulf-based analysts pointed out: "The more you allow the individual to acquire a share in his own economy the more he will demand a say in the policy of that country."

Gulf governments are almost certain to shy away from this prospect.

Norske Skog posts record 1989 results

By Karen Fossli in Oslo

NORWAY'S Norske Skogindustrier, one of Scandinavia's largest pulp and paper producers, yesterday posted record results for 1989, proposed a dividend payment of NKr8 a share and announced a three-year investment programme of NKr6bn ($904m) to upgrade plant and expand production capacity.

Operating profit rose by 78 per cent to NKr1.191bn last year from NKr669m in 1988. Sales hit NKr9.5bn – a 37 per cent increase over 1988 when they were NKr6.9bn. Group net profits, before extraordinary items, increased to NKr920m from NKr719m.

The comparative figures for 1988 were given on a pro forma basis as last year Norske Skog merged with Follum Fabrikker and Tofte Industrier, two large Norwegian newsprint and cellulose producers.

In addition, the company acquired Saugsbrugsforeningen, a smaller Norwegian paper producer, and Empire Paper Mill of England, a fine-quality paper producer.

After acquisitions and the merger, Norske Skog comprises six divisions and 6,600 employees.

However, the company said that adding to the improvement in its result last year was high productivity, a 6 per cent increase in West European demand and an increase in foreign sales in 60 countries which accounted for 69 per cent of the total.

Norske Skog said its capital requirements for the three-year NKr6bn investment programme would be met by three sources; 50 per cent would come from profits, 35 per cent from long-term loans and 15 per cent from an equity expansion.

The company's equity to debt ratio improved to 29 per cent from 27 per cent though it has set for itself a goal of 35 per cent.

Norske Skog said it is considering increasing production in England and to produce other qualities of paper. Annual production there is currently between 50,000 and 60,000 tonnes.

INT'L APPOINTMENTS

Reebok president for worldwide business

REEBOK, the US sportswear concern 32 per cent owned by the Edinburgh-based Pentland Group, has combined its US and international business divisions and appointed Mr John H. Duerden as president for this worldwide grouping.

John H. Duerden

The company has seen a strong revival in its fortunes after its sports shoe market position had slipped in the late-1980s. A month ago, Reebok reported a five-fold jump in fourth-quarter net income to leave a record result for the year, with the international division providing a main source of growth. The success of Reebok's new Pump sports shoe is expected to provide a further boost to profits.

Mr Duerden, 49 and formerly managing director and chief operating officer of the Reebok International division, based in the UK, is moving to the company's worldwide headquarters in Massachusetts. Mr Frank O'Connell, who was president of the US division, decided to resign rather than being effectively demoted or take on another senior role.

This follows the departure last October of Mr C. Joseph LaBonte as company president and chief operating officer in a management shake-up.

Mr Paul Fireman, Reebok's chairman and chief executive, said this latest move was to focus the Reebok brand on a strong global approach to design, manufacturing, marketing and communications.

Mr Duerden worked for Xerox for 18 years, finally as vice president and director of corporate business development worldwide.

Marsh & McLennan to open East Berlin office

MARSH & McLennan, the leading US insurance broking and business services group, is to open an office in East Berlin to serve the East European market and is appointing Ms Martina Dehmlow as its head.

The office will be under the responsibility of Gradmann & Holler, the leading insurance broking concern in West Germany in which Marsh & McLennan has now acquired a majority interest.

The company also said it will open a client service centre in Vienna to provide services and develop insurance market relationships in Eastern Europe.

● Mr Walther Leisler Kiep, a general managing partner of Gradmann & Holler, has been elected as a Marsh & McLennan director.

* * *

WITHIN THE capital markets division at Merrill Lynch, the largest US securities house, Mr Martin Loat has become managing director for its swaps-derivative product group

Based in London, Mr Loat will join the Merrill Lynch Europe executive committee. He formerly worked for Bankers Trust New York as managing director - public equity group.

Mr Richard Dunn and Mr Karl Heinz-Hauptmann have also left Bankers Trust and joined Merrill Lynch's swaps-derivative product group.

* * *

CONAGRA, the large US food processing group, named Mr Robert Peyton as president, ConAgra Eastern Europe, and president, ConAgra Soviet Union, with a directive to increase the company's presence in these areas. He will remain executive vice president of ConAgra International.

Mr Peyton will be responsible for ConAgra joint ventures, acquisitions, projects and technological agreements or exchanges involving Eastern Europe and the Soviet Union.

BCIL to declare special dividend

By John Elliott in Hong Kong

BOND Corporation International (BCIL), the Hong Kong listed subsidiary of Mr Alan Bond's Australian-based business empire, intends to declare a special dividend to use surplus cash after it has completed the sale, announced last month, of its controlling stake in Compania de Teléfonos de Chile (CTC) and has explored the possibility of taking full control of a development site in Rome.

This was announced yesterday when BCIL announced consolidated interim profits after taxation and minority interests of HK$186.2m (US$23.82m) for the six months ended December 31, compared with HK$236.7m in the first half of 1988.

Under the terms of the agreement for selling the Chilean telephone company (which goes to an extraordinary general meeting on April 2), BCIL will have approximately HK$2.6bn in cash before expenses. It will also have earned a profit of about HK$580m, the company said yesterday.

Part of the cash might be used to buy up the 50 per cent of a Rome development site that BCIL does not already own.

The present stake was purchased for US$120m last April, and the company said last night that it believes that full ownership might help to clear planning problems. An alternative of selling the existing stake would, it is believed, also be considered.

After this has been resolved, the directors intend to declare a special dividend. This would provide cash for Mr Bond's empire, which owns 65.89 per cent of BCIL. No interim dividend is being recommended.

Apart from the Chilean and Rome investments, BCIL's only other operation is an 85 per cent stake in the Huizhou Brewery in southern China acquired last July. Distribution of the brewery's Dragon 8 brand is to start soon in Hong Kong.

Making an international connection

Peter Bruce on Telefónica of Spain's attempts to expand into Chile

If it comes off, the $391m offer by Telefónica of Spain to buy control of the Chilean telephone company, Compania de Teléfonos de Chile (CTC), will be more than just another deal.

It is still extraordinary for any company to run another territory's telephone network but Telefónica desperately needs to break out of Spain. Last month it agreed in principle to buy the 53 per cent stake in CTC owned by Mr Alan Bond of Australia.

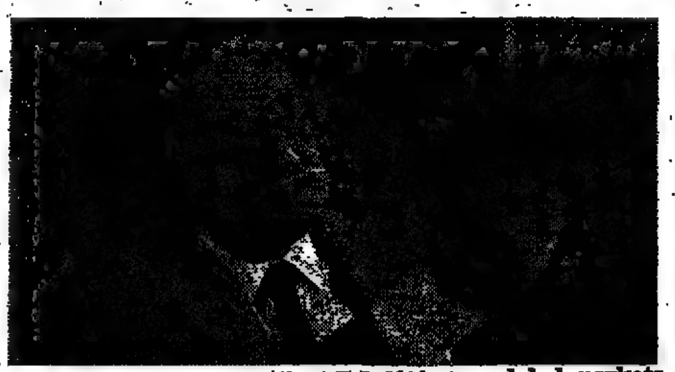
The Spanish have been trying hard in Latin America's telecommunications markets. Telefónica has bid for part of Argentina's monopoly, Entel, and it will want to bid for the Mexican and Costa Rican PTTs when they are privatised. "We are interested in everything," said Telefónica.

That is in many ways an astonishing statement. At home, Telefónica's public image is very poor. With chronic congestion on its lines, a telephone backlog that rose above 600,000 in 1988 (it is 500,000 today), Telefónica admits its network will not function properly until 1994. It is also being pressed by the European Commission to open its profitable data transmission services to competition.

Spain's once-efficient telecoms industry is undergoing a painful change. A new law, the LOT, brought out in 1987 to deal with new technologies and liberalisation, freed the terminals market but was superseded by the European Commission's Green Paper on freeing services. Madrid has taken the Commission to court to buy more time to adapt.

Telefónica is at the centre of this uncertainty. The company was one of the first private telephone monopolies in Europe, but for most of Franco's dictatorship was run as a fiefdom. Local tariffs were kept low and international calls, remain very expensive.

"We are still paying for this," said Mr Jose Luis Martin Palacin, secretary general of communications at the Transport Ministry. "The price of local calls is only about half their cost." But until the Government, which owns 32 per cent of Telefónica, allows it substantially to increase local rates, the Spanish monopoly will not come close to meeting, profitably, the Commission's liberalisation timetable.



Luis Solana: briefed to float Telefónica on global markets

If Spain is forced to permit competitors to enter the data transmissions market, Telefónica could be left monopolising voice services, which it would have to subsidise with profits from elsewhere.

Although a 6.5 per cent increase in average tariffs, including a 14 per cent rise in local rates, has been agreed for this year, Telefónica and the Government circle each other like estranged friends. Madrid helps by trying to delay liberalisation but cannot raise tariffs significantly without threatening its inflation targets.

These tensions must, for Telefónica's management, seem light years distant from the early 1980s when the Socialist Government came to power and installed Mr Luis Solana, as president. His brief, to generate advances in local technology, to float the company on global stock markets and make a profit, was followed to the letter.

By 1986 net income had risen nearly 70 per cent to Pta45.5bn ($414m). Telefónica had bought into, or established, a string of tied equipment suppliers and was quoted around the world. Last year it made net profits of Pta68.5bn.

Mr Solana had left by then. By 1988, his last year, the company was deeply unpopular. The network nearly collapsed because the company underestimated demand for new lines during Spain's economic boom.

The new chairman, Mr Candido Velazquez, also a Socialist, has established a Pta3,000bn investment plan to complete the network in the next five years. But it is late in the day to be building a network while being pressured to open it to competitors. The Government, eager to help because it would pay the political costs of failure, is moving on two fronts:

It is complaining to the European Court about a Commission directive which would limit the powers of PTTs over their networks after 1993, in some cases 1996, by forcing PTTs which lease lines to allow use of those lines to be sold again to third parties.

Mr Palacin insists the move does not mean Madrid opposes liberalisation. "It is the process that is wrong," he says. Belgium and Italy have also challenged the directive. But the true design is to buy time for Telefónica.

Draft rules drawn up to govern relations between the Government and Telefónica impose tough conditions on companies that establish competing data transmission services. They will be forced to provide services outside the most profitable business centres and will have to pay towards depreciation of Telefónica's network.

Such barriers might deter would-be competitors if Spain's economic boom fades, but some have already arrived. Telenet, part of the US Sprint private transmission service, is about to acquire a Spanish partner and establish a communications node in Spain to connect local clients to Telenet's international network. But even that ambition could be problematic. If Telenet uses one Telefónica line any of its clients in Spain would, theoretically, become illegal third-party users.

Telefónica's spokesman, Mr Luis Gomez, agreed that the lack of clarity over Commission and Spanish regulations, made it hard to plan ahead. "We are in an uncomfortable situation for everyone," he said. That is especially true for Telefónica's main switch suppliers, Alcatel Standard and Ericsson. Blaming supply bottlenecks, Telefónica last year brought in AT&T Network Systems, which this year will pick up 8.7 per cent of its 2.8m planned lines.

Traditional suppliers fear Telefónica will want to stop them supplying new private network operators. And imports of equipment are rising sharply. Telefónica is spending Pta189bn this year on switching and transmission equipment.

Telefónica's acquisition policies feed the uncertainty. The company is considering selling its 21 per cent stake in Alcatel but has left the decision hanging. It may buy a stake in AT&T Network Systems but this decision, too, has been allowed to drift. A 12 per cent stake in Amper, a local telephone manufacturer, seems secure, as does its 10 per cent stake in Fiat's Telettra, a major supplier of radio and military transmission systems.

These holdings are security and a threat to suppliers as they enable the monopoly to monitor suppliers' contacts ahead of liberalisation. For extra technical cover, Telefónica has made new alliances abroad – 6 per cent of Infonet, the US data transmissions business, 3 per cent of Geostar, the US radio communications operation, and, recently, 10 per cent of Mercury PCN, the consortium led by Mercury Communications.

Apart from shortages, transmission technologies do not trouble Telefónica. Its core problem is offering services on its lines to compete with the ones that will be offered on the lines it leases. Some analysts say Spain lags five years behind advanced European countries in what are known as value-added network services (VANS).

Few VANS exist in Spain. An electronic mail service (Telefónica's) is still in its infancy and a videotext service based on the French mini-tel system has never really taken hold. But even if the Government does buy the company more time, experts agree that it will be almost impossible to compete everywhere.

Recognition of that is implicit in the bid for Mr Bond's Chilean company. "Either we limit ourselves to defending a domestic market that we know will soon be invaded or we try to be competitive," said a senior Telefónica executive.

Telefónica has identified a market in Spain's old colonies, at least in transmission. Both Prime Minister Felipe Gonzalez and Mr Velazquez have been to Chile this week to lobby for the CTC bid, although the Chilean Government is considered unlikely to block the deal. Telefónica needs all the breaks it can get.

CTC lifts profits since privatisation

CTC's performance since its privatisation in December 1987 is impressive and augurs well for similar experiments elsewhere in the continent.

Under Mr Alan Bond's control a small public utility was transformed into a profitable and growing company. CTC's profits have trebled in its two years of private ownership, from $31m in 1987 (the last year of public ownership) to $63.5m in 1988 and $95.6m last year. Turnover rose from $166m in 1987 to $269m in 1989.

News of the sale was well received on the Santiago trading floor, where CTC shares jumped from 198.5 pesos (65 cents) before the deal with Telefónica to 206 pesos immediately afterwards and are now trading at 245. The tentative deal values CTC at 340 pesos a share, but may be worth less in practice.

CTC sold 141,900 new lines in 1989, against 61,000 in 1988. Under a $1.3bn five-year investment plan, it aims to double installed capacity to 1.2m lines by the end of 1992. CTC has also entered into competition with the other main operating company in Chile, Entel (Empresa Nacional de Telecomunicaciones SA). Until 1988 CTC controlled 96 per cent of internal telephone traffic, while Entel held the monopoly of all the international telephone services and most of the long-distance trunk calls. CTC currently rents facilities from Entel but has been establishing its own transmission facilities.

CTC's intrusion into what was once Entel's exclusive domain is causing problems for a company which is also being privatised gradually. Entel has even asked the Supreme Court to rule on who has the right to provide trunk services in Chile.

The rivalry between CTC and Entel will also pose a problem for Telefónica. CTC and Banco Santander each purchased a 10 per cent stake in Entel last year. Market analysts in Chile foresee a potential conflict of interest if Telefónica also becomes the majority shareholder in CTC.

With Telefónica owning significant stakes in both companies, analysts believe that CTC may well make a bid for Entel. The Telefónica deal has been referred to Chile's monopolies commission but it is unlikely to block the sale as the Government fixes telephone tariffs and it is thought never to have blocked a major deal.

Leslie Crawford

INTERNATIONAL CAPITAL MARKETS

Interest rate uncertainty checks flow of new issues

By Norma Cohen

EUROBOND markets yesterday remained under the pall of uncertainty about worldwide interest rates, with only three borrowers willing to venture out with new deals.

A recovery in US Treasury bond prices, after a sharp drop on Wednesday, left investors too nervous to take new positions of any sort.

INTERNATIONAL BONDS

Sears, Roebuck, the leading US retailer, launched its $500m five-year Eurobond backed by credit card receivables with a coupon of 9¾ per cent and priced at 101.35 to yield 86 basis points over underlying Treasuries. After accounting for fees, the bonds were assigned a re-offered price of 99.75, giving co-managers fees of 27½ basis points.

Lead manager Credit Suisse First Boston broke syndicate about half an hour after the bonds were launched, and the securities traded thereafter around their re-offered price. Underwriters attributed the deal's success to the road show by Sears to familiarise European investors with its operations.

Dealers said that the structure, which uses a subordinated tranche to guarantee interest and principal payments to investors, appears to be only marginally more reassuring to investors than the use of third-party guarantees which have enhanced previous credit card backed deals.

Sears is said to have taken the $42.5m subordinated tranche of debt on to its own books. That option has not been attractive for Citicorp, the only previous issuer of credit card backed debt in the Euromarkets, because of international capital requirements.

Elsewhere, Deutsche Bank Australia launched a A$85m five-year bond bearing a coupon of 14⅛ per cent and priced at 101. Lead manager Deutsche Bank Capital Markets increased the issue to A$100m in response to investor demand. Although the securities yield some 20 basis points below Australian government debt, and reports of Australia's increasingly heavy external debt weighs heavy on the markets, the borrower's identity proved a strong draw.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
SearsRoebuck Euro Accts♦(b)	500	9¾	101.35	1995	n/a	CSFB
AUSTRALIAN DOLLARS						
Deutsche Bk Australia♦(c)	100	14⅛	101	1995	2/1⅞	Deutsche Bk.Cap.Mkts.
ECU						
Landesbk.Baden-Wurttemburg♦	75	11⅞	101.90	1992	1⅞/⅞	CSFB
SWISS FRANCS						
Isetan Int.Fin.★★♦	10	(a)	100	1995	n/a	Mitsubishi (Switz).
SNCF♦	100	7⅛	102	2005	n/a	Handelsbank Natwest

★★Private placement. ♦Final terms. a)For first two years coupon at 6month Libor + 30bp, then fixed at 6⅞. b)Re-offered price fixed at 99.75. c)Issue amount increased from original A$85m.

ICB to hand in its banking licence

INTERNATIONAL Commercial Bank is to become the latest of several London-based consortium banks to close its doors, writes David Lascelles, Banking Editor.

The bank announced yesterday that it will hand in its banking licence on June 30. Its assets will be wound down, though it has not yet been decided whether they will be bought by the bank's six bank shareholders or sold.

The shareholders are the Hongkong and Shanghai Bank, Commerzbank, Crédit Lyonnais, First Chicago, Banco di Roma and Bank of New York. They have committed themselves to take over the funding of the bank.

Mr Michael Wells, managing director, said the decision had been taken "because our shareholders reached the conclusion that ICB was no longer of strategic value."

ICB was set up in 1967 to specialise in sovereign lending. But the climate was now "radically different," according to Mr Wells.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on March 14

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6½ 91	80	98⅝	99	0	-0⅛	0.07
Canada 5⅞ 93	80	95¼	95⅝	+0⅛	-0⅛	7.25
Cr.Local France 6⅛ 94	300	94⅛	94⅞	0	-1⅛	6.72
Denmark 6⅛ 95	300	94⅛	94⅝	+0⅛	-1	6.72
E.I.B. 4⅞ 93	30	93⅛	93⅛	+0⅛	-0⅛	7.34
Norway 5⅞ 95	50	91	91⅛	+0⅛	-0⅞	7.28
Sweden 4⅞ 93	50	92⅛	92⅞	-0⅛	-0⅞	7.45
World Bank 5⅞ 98	10	85⅜	86⅛	-0⅛	-1⅞	7.51
World Bank 7 96	20	99⅛	99⅝	0	-0⅞	7.27

Average price change... On day +0 on week -0⅞

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10¼ 94 C$	150	91⅛	91⅞	-0⅛	-1	12.83
Abbey Nat. 11⅝ 93 £	100	92⅝	93⅛	+0⅛	0	14.80
Aegon 7⅞ 92 Fl	100	97⅞	98⅛	+0⅛	-0⅛	8.09
Alg. Bk. Ned. 5⅞ 93 Fl	200	90⅝	91⅛	-0⅛	-0⅛	9.37
Austria 7⅞ 94 ECU	100	89⅞	89⅞	+0⅛	+0⅛	10.89
Barclays Aus. 13⅞ 91 A$	180	96⅛	97⅛	0	+0⅛	15.60
Belgium 8⅞ 94 Ecu	150	89⅛	90⅛	-0⅛	-0⅛	11.39
Bell Canada 10⅞ 04 C$	200	†91	91⅛	-0⅛	-1⅛	12.16
BP Capital 9¾ 93 £	100	88⅛	88⅝	+0⅛	-0⅛	14.69
British Airways 10 98 £	100	81⅞	82⅛	+0⅛	-0⅛	13.87
Brit. Telecom 9⅞ 93 £	150	88⅛	89	+0⅛	-0⅛	14.50
Comm. Bk. Aust. 12⅝ 93 A$	100	†93⅞	93⅞	-0⅛	+0⅛	15.23
Comm. Bk. Aus. 13⅞ 94 NZ$	60	101⅛	102⅛	0	+0⅛	13.14
Credit Foncier 9 96 Ecu	100	90⅞	91⅛	+0⅛	+0⅛	11.03
Cr.Local France 9¾ 92 Ecu	100	96⅛	97⅛	-0⅛	0	10.77
Deut. Bk. Aus. 13⅞ 93 A$	125	96⅛	96⅛	-0⅛	-0⅛	14.69
Deutsche Bk. Fin. 15 94 A$	100	100⅞	101⅛	-0⅛	+0⅛	14.66
Elec. De France 9¾ 99 C$	150	†86⅞	87⅛	-0⅛	-1⅛	12.13
E.I.B. 7 96 LFr	100	†90⅞	91	+1	-2⅛	9.09
E.I.B. 7⅞ 99 Fl	150	86⅛	87⅛	+0⅛	-0⅛	9.23
E.I.B. 9 99 Ecu	150	†89⅞	90⅞	0	+0⅛	10.79
Eurofima 7⅞ 94 Ecu	100	89⅞	90	0	+0⅛	11.00
Fed. Bus. Dv. Bk. 9 94 Ecu	100	†92⅛	92⅞	-0⅛	-0⅛	11.32
Fed. Bus. Dv. Bk. 9⅞ 92 C$	75	†94⅛	94⅞	-0⅛	-0⅞	12.68
Ford Cr. Can. 10⅞ 93 C$	100	†95⅞	96⅛	-0⅛	-0⅛	12.50
Ford Cred. Can. 10⅞ 96 C$	125	92⅛	93⅛	-0⅛	-1	12.67
Ford Cred. Fund. 10⅞ 93 £	60	89	89½	+0⅛	-0⅛	14.69
G.M.A.C. Canada 11 3/4 94 C$	100	96⅛	96⅛	-0⅛	-1	12.88
Heineken 7⅞ 94 Fl	150	95⅞	96⅛	-0⅛	+0⅛	8.12
Hydro-Québec 11 99 C$	400	†93	93⅛	-0⅛	-1½	12.30
Lloyds Bank 10⅞ 98 £	150	82⅛	82⅞	+0⅛	-0½	14.03
Lloyds Bank 11⅞ 98 £	100	87⅛	88	+0⅛	-0⅛	13.87
Nat. Aus. Bk. 14⅛ 94 A$	100	99⅞	100⅛	-0⅛	+0⅛	14.77

Belgium advances freeing of markets

By Peter Norman and Stephen Fidler

THE Belgian National Bank is moving ahead with plans to further a wide-ranging deregulation of the country's financial markets with the twin aims of reducing debt servicing costs and preparing Belgium for the free market after 1992.

According to National Bank officials, the Belgian authorities will make Treasury bill offerings open to tender, permit foreign financial institutions to operate on the Belgian primary debt market and expand the Belgian national bank's open market operations.

In line with the recommendations of the Delors report for economic and monetary union in Europe, Belgium also plans to reduce substantially to BFr20bn ($560m) from BFr110bn the ability of the Government to borrow from the central bank. This limit was reduced from BFr180bn last year.

Financial institutions will continue to have access to the central bank as lender of last resort, but at penal rates.

At the beginning of this month Belgium ended its long-established two-tier exchange rate for the Belgian franc and reduced to 10 per cent from 25 per cent the withholding tax levied on interest income.

The moves in the bill market are aimed at separating the Government's funding needs from control over monetary conditions – which will be accomplished through the type of open market operations now common in other markets.

The programme, which will be introduced in consultation with the Belgian banking industry, will draw on the experiences of the City of London during the Big Bang financial market deregulation of 1986 and the progressive expansion of the Bundesbank's open market operations during the 1970s and 1980s.

The Belgian authorities will begin discussions in the autumn on ending restrictions over such retail financial services as mortgage lending and savings rates.

The moves partly reflect political decisions to give the National Bank a bigger role in running Belgium's economy after Mr Alfons Verplaetse, a former close aide of Mr Wilfried Martens, prime minister, took over last July as bank governor. The deregulation drive has also been made possible by a significant improvement in economic conditions.

Belgium's gross national product grew by 4.5 per cent in real terms last year with relatively low consumer price inflation of 3.1 per cent.

Belgium last year ran a current account surplus estimated at BFr150bn or 2.3 per cent of GNP after a BFr128bn surplus in 1988. However, it is thought this was more than offset by an outflow of capital. One argument for deregulation is to stem the outflow.

Another reason for opening up Belgian financial markets to foreigners is to reduce the cost of servicing Belgium's high national debts. They believe current non-inflationary growth should attract foreigners to Treasury bills and government bonds.

G30 seeks to extend influence

By Richard Waters

ATTEMPTS to upgrade clearing and settlement systems in the world's leading equities markets should be extended to derivative markets as well, according to representatives at the Group of 30's conference on settlement systems in London yesterday.

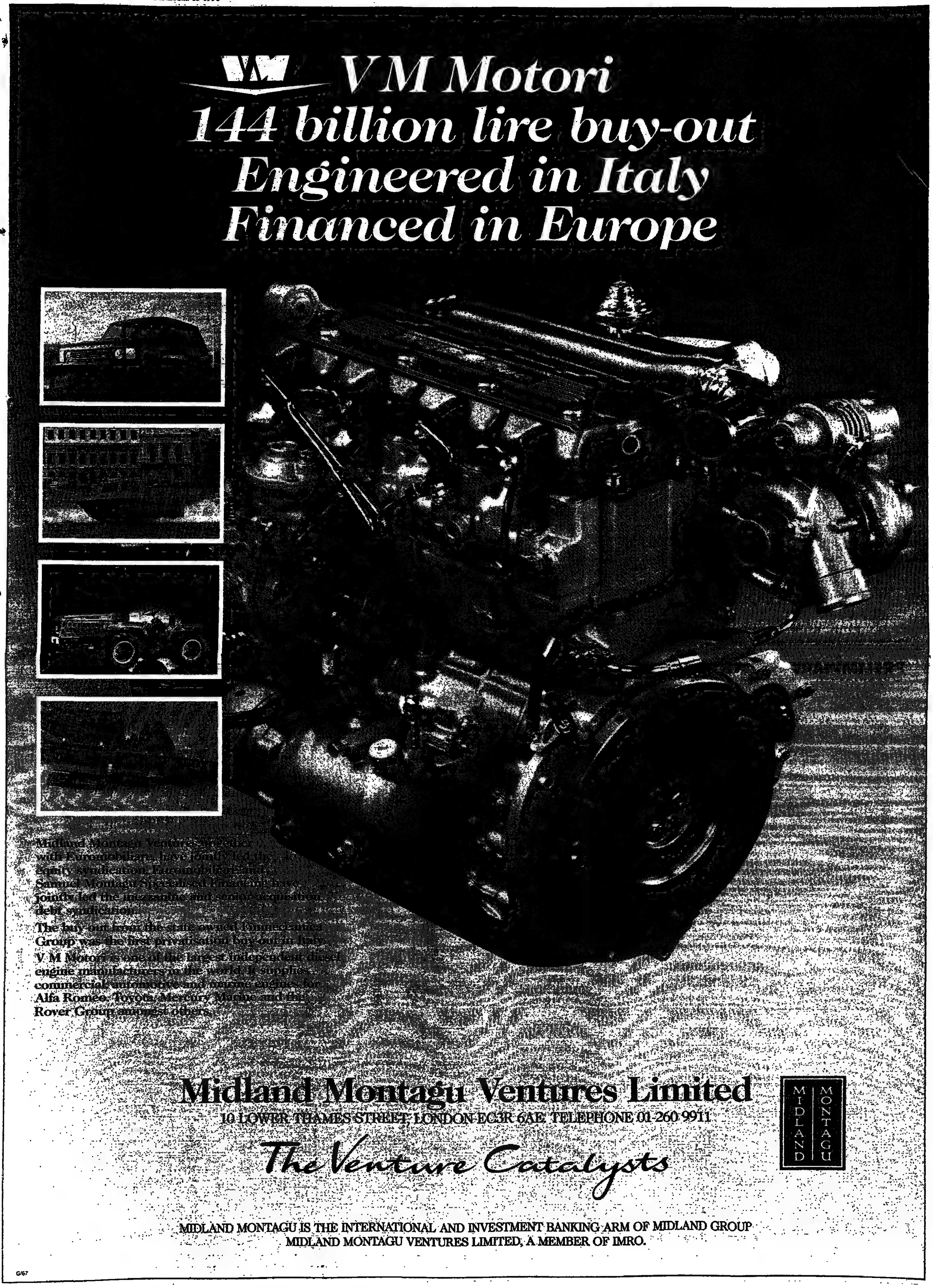
The G30 meeting was called to assess progress on the adoption of its recommendations for settlement systems, made a year ago.

Lord Richardson, chairman of the group and former governor of the Bank of England, said representatives were unanimous in their acceptance of the nine recommendations that the G30 had made.

Representatives urged the steering committee which had carried out the work, under Mr John Reed, chairman of Citibank, to extend its brief to cover derivatives markets and to push for higher standards in the cash markets.

It was felt that requiring settlement to take place three days after a transaction was unsatisfactory. Mr Richard Breeden, chairman of the US Securities and Exchange Commission, said after the conference that settlement "should be as close to real-time as we can make it."

However, the G30 is unlikely to extend its already-ambitious recommendations until clear headway has been made.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144 billion lire buy-out
Engineered in Italy
Financed in Europe
Midland Montagu Ventures together with Euromobiliare, have jointly led the equity syndication. Euromobiliare and Samuel Montagu Specialised Financing have jointly led the mezzanine and senior acquisition debt syndication.
The buy-out from the state owned Finmeccanica Group was the first privatisation buy-out in Italy.
V M Motori is one of the largest independent diesel engine manufacturers in the world. It supplies commercial, automotive and marine engines for Alfa Romeo, Toyota, Mercury Marine and the Rover Group amongst others.
Midland Montagu Ventures Limited
10 LOWER THAMES STREET, LONDON EC3R 6AE. TELEPHONE 01-260 9911
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INTERNATIONAL CAPITAL MARKETS

Strong rally in Europe helped by short closing

By Andrew Freeman in London and Karen Zagor in New York

EUROPEAN government bond markets enjoyed stronger trading yesterday as the pessimistic sentiment of recent weeks appeared to ease.

Investors looking to reduce or close short positions went into the markets seeking stock and helped prices gain more than a point.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	91-21	+09/32	13.40	13.25	12.33
		10.500	5/99	89-31	+19/32	12.34	12.22	11.36
		9.000	10/08	82-20	+1	11.24	11.14	10.42
US TREASURY *		8.500	02/00	99-03	+18/32	8.64	8.56	8.38
		8.500	02/20	98-26	+33/32	8.61	8.57	8.41
JAPAN	No 119	4.800	6/99	88.2702	+0.336	7.28	7.22	6.63
	No 2	5.700	3/07	89.6930	+0.209	7.03	6.86	6.30
GERMANY		7.125	12/99	90.4500	+1.600	8.80	8.92	8.57
FRANCE	BTAN	8.000	10/94	90.3918	+0.167	10.73	10.77	10.66
	OAT	8.125	5/99	88.6600	+0.670	10.06	10.28	10.02
CANADA *		9.250	12/99	89.8500	+0.500	10.97	10.72	10.18
NETHERLANDS		7.500	11/99	89.7200	+0.140	9.13	9.15	8.98
AUSTRALIA		12.000	7/99	91.9978	-0.593	13.52	13.45	13.11

London closing, *denotes New York closing
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

Analysts were reluctant to suggest a full-scale psychological shift, however, pointing out that general buying pressure was largely technical and left the markets vulnerable to further falls.

■ THE West German government bond market had one of its best sessions in recent weeks yesterday.

Both cash and futures markets ended around one point higher on the day in active trading driven by position squaring ahead of Sunday's elections in East Germany.

The Bundesbank sold DM341.5m of paper at the fixing as average yields fell to 8.99 per cent.

Long-dated bunds performed best, with the 7¾ per cent bund maturing 2000 fixed in the morning around 30 pfennigs higher at 92.95 to yield 8.94 per cent.

Other 10-year issues recorded better gains of around 60 pfennigs at the fixing.

As the session went on, bunds gained a further 40 pfennigs, ending near their highs.

■ IN the UK, the gilts market was led lower by the futures and currency markets early on, before moving ahead strongly as professional traders looked to close short positions and adopt neutral weightings ahead of next week's Budget.

As in Germany, long-dated issues were in most demand.

The 11¾ per cent benchmark gilt maturing 2003-07 gained around ¾ point to 99¾ to yield 11.83 per cent, a strong improvement after its 12 per cent lows earlier in the week.

At the mid-point on the maturity curve, the 10¼ per cent gilt maturing 1995 gained around ⅞ point.

■ THE French market followed the trend, with most bond prices gaining a point in active trading.

The benchmark 8.8 per cent OAT maturing in 1999 was trading at 88.65 to yield 10.06 per cent, against a 10.16 per cent yield on Tuesday. The performance mirrored a 10 basis point cut in 10-year interest rates.

■ IN Japan, government bonds improved throughout the day, but tailed off towards the close as prices followed events in the foreign exchange markets. The benchmark No. 119 issue was yielding 7.3 per cent, against 7.325 per cent at Tuesday's close.

■ US Treasury bonds rallied yesterday afternoon, in spite of further evidence that the economy is growing slowly, but not heading towards a recession, according to the Federal Reserve's Beige Book on economic activity and inflation.

Although there was nothing unexpected in the Beige Book, the bond market initially moved off its early morning highs amid the inauspicious signs for any further easing in monetary conditions. By late afternoon, however, the Treasury's benchmark 30-year bond was up 1$\frac{1}{32}$ at 98$\frac{27}{32}$, yielding 8.60 per cent, recouping all its previous day's losses.

The gains were less pronounced at the short end of the yield curve, where the two-year issue was up ⅛ to yield 8.69 per cent. Fed funds changed hands at their opening level of 8$\frac{1}{4}$ per cent through most of the day.

Italian bonds search for a wider audience

Haig Simonian on why investors are taking a closer look at Milan's debt markets

Italy's stock market may still be risky business for foreign investors, but signs are that international interest in Italian government bonds – the third biggest government bond market in the world – is picking up fast.

That is one of the hopes expressed in two recent bank studies, both of which indicate a new bullishness about the Italian economy in general, and government debt in particular among foreign banks dealing with Italy.

According to Salomon Brothers, close links between European currencies mean that Italian government paper now has unprecedented potential as an attractive, but largely undiscovered, investment opportunity for international institutions.

Spurred by their substantial need for capital, Italian state industries have become familiar names in the Euromarket over the years.

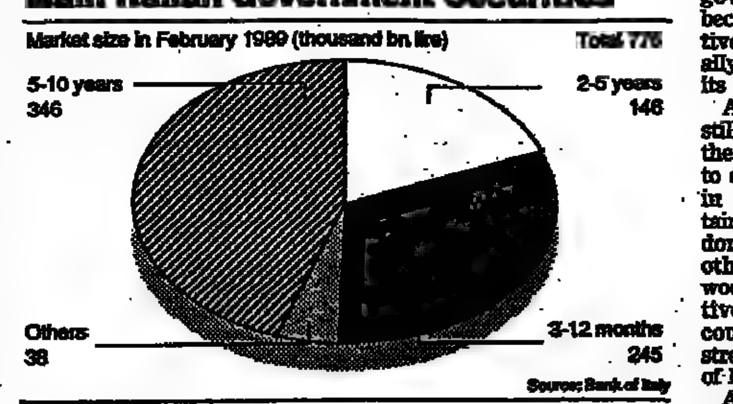
Meanwhile, the propensity of successive Italian administrations to spend more than they earn – leading to growing budget deficits – means the Government itself has regularly tapped the international capital markets.

But domestic Italian government paper has tended to be much more of an acquired taste, and one usually regarded by foreign institutions as best left for the *cognoscenti*, in spite of the appreciable interest rate premiums available over state borrowings from some other big European countries.

Neither of the studies claims the Italian domestic debt market is perfect, and both stress the need for substantial changes before it can offer the attractions of some of its European neighbours. But both also point out that change is already well under way.

Main Italian Government Securities

Market size in February 1989 (thousand bn lire)



Source: Bank of Italy

The traditional reasons for shunning Italian domestic debt are simple. Domestic government paper carried a sizeable "risk premium" to compensate for the likely exchange rate risk from a depreciating lira. Matters have been exacerbated by high domestic inflation in the past, while the absence of a liquid market, especially when it comes to dealing in the sort of size likely to appeal to big international institutions, have been further hindrances.

Add to that a confusing array of instruments, which includes Buoni Ordinari del Tesoro (3-12 month Treasury bills), Buoni del Tesoro Pollennali (2-5 year Treasury bonds) and Certificati di Credito del Tesoro (5-10 year Treasury credit certificates), and the disincentives increase. It only takes a complex withholding tax structure to cap international investors' reluctance.

No one in the Milan financial community is so bold as to claim that a renaissance is imminent. But, arguing longer term, bankers point to a number of developments which suggest the market is being underestimated.

Exchange rate risk is already much lower than in the past thanks to the increasing convergence of economic and monetary policies. The lira showed impressive strength against the D-Mark for much of last year, while senior officials in the Bank of Italy speak proudly of a tight money policy.

The decision in January to tighten the lira's EMS fluctuation rates has been taken as a further token of the authorities' commitment to bring Italy's economy more in line with its European partners. And the move to phase out the remaining obstacles to the free movement of capital by July 1 also shows Rome's new determination, it is claimed.

Salomon says that "Italy could be the single biggest gainer from monetary union in Europe." At the very least "the increasingly close co-ordination of monetary and economic policy among EMS countries is creating a situation in which Italian government paper could become a much more attractive investment internationally, while retaining much of its interest rate premium."

Admittedly, the Government still has much to do. Among the suggestions being floated to encourage greater efficiency in managing the debt mountain is shifting part of Italy's domestic lira borrowing to other EMS currencies. That would not only create attractive new instruments, but could also play a part in stretching the maturity profile of Italian government paper.

As matters stand, government debt amounted to some 99 per cent of GNP, based on Salomon's estimates for 1989. While seemingly a huge proportion, it is in fact less than the equivalent figure for Ireland (111 per cent) or Belgium (127 per cent).

Negative perceptions of the dramatic nature of the Italian government debt "problem" are exacerbated by the fact that Italian government debt currently has an average life of just 2.5 to three years, against 5.4 years in Germany and no less than 10.9 years in the UK. The short maturities mean that debt equivalent to around one third of GNP must be refinanced each year.

The situation this year is likely to be particularly acute, bunching together redemptions equal to no less than 40 per cent of GNP. Salomon says that bonds equivalent to 4 per cent or 5 per cent of Italian GNP will have to be issued each month in 1990.

Reducing the burden by borrowing in a wider variety of currencies would lower the overall interest rate burden, and thus have the additional advantage of cutting the amount governments would need to borrow in future, it argues. Broadening the institutional investor base and making the market more liquid is another key part of the strategy.

"Things have already improved," under the new official secondary market introduced last year, notes one trader.

Indeed the primary dealer system is likely to be further boosted with the addition of the first foreign bank to the list shortly.

However, among the developments traders would still like to see is a system of bond borrowing, and, in due course, an options and futures market in Italian government debt to match the exchanges already operating in London, Paris and Frankfurt.

Although it is possible to write over-the-counter options or to trade on a forward basis, a formalised market would provide much greater security, it is said. Suggestions for such a development have already been approved by the Italian Senate and are currently before the parliament as part of a package of wider financial reforms.

"There is a lot of talk so far", says one sceptical dealer. But in the present circumstances the authorities have enough to do to develop the markets before having to worry too much about discovering derivatives.

Italian Public Debt at the Dawn of Monetary Union - A Foreigner's View, Graham Bishop, Salomon Brothers. Italian Government Securities, Morgan Guaranty Trust Company, Milan.

Samsung postpones Eurobond issue

SAMSUNG Electronics, South Korea's largest electronic manufacturer, has postponed its first-ever offering of convertible Eurobonds with equity warrants, citing market conditions, writes Norma Cohen. The issue will be postponed until conditions in Asian equities markets stabilise.

Samsung had been making presentations to international investors in advance of launching its planned $75m issue.

Mr Anthony Norris, of Baring Brothers, the underwriter, said the slide in Tokyo stock prices had hit the Korean stock market, affecting most severely those issues eligible for purchase by foreigners. Foreign investors cannot buy Korean stocks outright until 1992, but are allowed to participate in the markets via derivative products such as convertibles and equity warrant bonds.

Nomura to develop programme trading

By Roderick Oram in New York

NOMURA Securities has targeted programme trading, the controversial technique accused by some of periodically rattling global equity markets, as a key skill it needs to develop to serve clients around the world.

Nomura Securities International, the US arm of the Japanese firm which is the world's largest securities house, has hired Mr Joseph Schmuckler, a leading programme trading exponent, away from Kidder Peabody to spearhead its drive.

Mr Schmuckler, 29, renowned as a highly aggressive trader, is the third such expert Nomura has hired in recent weeks. Mr Mike Berman joined as head of its fixed-income derivative products and Mr Brian McVeigh as head of equity proprietary products.

Nomura has little experience in programme trading in the US or Japan. Because it is relatively new to the Tokyo market, three US firms, drawing on their experience at home, virtually monopolise futures-related equity trading there.

The steep decline of Tokyo stocks this year has been blamed by many people on programme trading. A more tangible cause, though, has been rising interest rates and concern over Japanese economic policy.

For its own account and its clients, Nomura will engage in stock index arbitrage, the most controversial programme trading technique. But it will stress more heavily other services, such as international trading of stock portfolios.

Robert Fleming hires Capel staff

THE London securities arm of Robert Fleming, the UK merchant bank, has hired a team of traders of UK equity-linked products from James Capel, the agency broker subsidiary of Hongkong and Shanghai Bank, writes Andrew Freeman.

It will trade UK warrants, as well as warrants and convertibles for UK companies trading in the Euromarkets.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Mar 14 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue Mar 13 Index No.	Mon Mar 12 Index No.	Fri Mar 9 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (202)	851.14	+0.4	13.43	5.09	9.07	3.19	848.08	848.91	850.72	972.33
2	Building Materials (27)	1035.21	+0.5	15.16	5.47	8.22	0.89	1029.98	1031.75	1034.27	1252.79
3	Contracting, Construction (37)	1404.52	+0.6	17.30	5.68	7.56	6.04	1396.35	1396.75	1395.96	1791.30
4	Electricals (10)	2446.94	+1.1	12.24	5.31	9.98	8.75	2421.01	2395.69	2398.32	2875.61
5	Electronics (29)	1806.70	+0.4	10.03	4.08	12.93	16.17	1800.29	1831.10	1839.79	2202.74
6	Engineering-Aerospace (8)	432.64	+2.3	13.98	5.10	8.79	0.04	422.83	422.38	422.34	0.00
7	Engineering-General (44)	464.78	+0.7	12.10	5.24	9.96	2.83	461.70	462.26	465.03	0.00
8	Metals and Metal Forming (6)	476.85	+0.9	24.68	6.54	4.57	0.00	472.62	470.53	469.70	548.06
9	Motors (16)	354.27	+0.2	14.65	6.13	8.07	3.10	353.52	353.18	356.22	320.21
10	Other Industrial Materials (25)	1553.77	-0.7	11.03	4.67	10.54	3.12	1564.05	1553.53	1552.57	1615.09
21	CONSUMER GROUP (177)	1202.78	......	9.50	3.99	13.15	3.97	1202.91	1200.99	1207.24	1203.91
22	Brewers and Distillers (22)	1393.63	+0.3	10.01	3.78	12.32	6.57	1389.02	1389.65	1389.23	1362.13
25	Food Manufacturing (20)	1061.16	-0.1	10.22	4.35	12.18	4.74	1062.39	1058.07	1066.77	1053.36
26	Food Retailing (16)	2228.71	+0.5	9.08	3.40	14.29	7.09	2217.15	2215.11	2239.90	2036.39
27	Health and Household (13)	2410.01	-1.1	6.66	2.73	17.84	2.48	2437.28	2413.88	2410.16	2174.31
29	Leisure (31)	1438.37	+0.9	9.83	4.21	12.56	6.20	1425.44	1429.23	1449.36	1661.09
31	Packaging & Paper (13)	561.58	+0.8	12.51	5.58	10.10	1.44	557.10	554.65	553.31	601.57
32	Publishing & Printing (16)	3228.72	......	9.97	5.42	12.83	21.87	3227.11	3240.52	3259.17	3786.35
34	Stores (33)	743.56	+0.1	11.67	5.03	11.15	1.78	742.72	746.33	753.85	789.45
35	Textiles (13)	498.95	+0.7	11.92	6.01	10.11	0.37	495.25	496.31	496.82	527.30
40	OTHER GROUPS (103)	1140.04	......	10.89	4.96	11.01	4.44	1140.47	1135.28	1141.03	1096.70
41	Agencies (17)	1555.47	-0.2	5.79	2.41	21.27	9.20	1558.20	1545.22	1538.00	1319.94
42	Chemicals (22)	1189.53	+0.1	12.11	5.56	9.71	20.57	1188.53	1171.25	1195.04	1212.49
43	Conglomerates (13)	1587.09	-0.9	10.25	6.17	11.48	5.64	1601.58	1596.70	1596.84	1542.49
44	Transport (13)	2213.45	+0.5	11.01	4.34	11.56	2.88	2202.22	2201.12	2218.32	2435.44
46	Telephone Networks (2)	1137.76	......	11.16	4.50	11.65	0.00	1137.59	1133.67	1137.78	1162.03
47	Water (10)	1975.05	+0.9	17.64	6.86	6.28	0.00	1957.49	1932.86	1944.36	0.00
48	Miscellaneous (26)	1850.76	+0.1	9.79	4.45	11.53	1.16	1848.25	1853.51	1861.55	1532.13
49	INDUSTRIAL GROUP (482)	1109.40	+0.1	10.91	4.57	11.21	4.00	1108.60	1106.49	1111.36	1136.21
51	Oil & Gas (18)	2330.96	+0.3	10.43	5.17	12.67	32.88	2323.18	2327.30	2333.17	1984.15
59	500 SHARE INDEX (500)	1210.72	+0.1	10.84	4.66	11.40	6.22	1209.39	1207.74	1212.72	1208.63
61	FINANCIAL GROUP (114)	786.17	+0.3	–	5.68	–	9.98	784.20	786.58	794.00	762.54
62	Banks (9)	852.97	-0.1	19.72	6.44	6.69	22.40	853.89	857.54	867.40	747.97
65	Insurance (Life) (7)	1282.19	+0.7	–	5.18	–	0.00	1272.79	1279.14	1281.11	1113.62
66	Insurance (Composite) (7)	646.31	+0.5	–	6.14	–	4.25	642.89	647.65	654.73	603.62
67	Insurance (Brokers) (6)	1053.89	+0.6	7.00	5.98	19.03	15.51	1047.25	1047.40	1066.87	985.61
68	Merchant Banks (8)	470.71	+0.4	–	3.82	–	0.83	468.98	466.28	470.31	347.57
69	Property (49)	1073.15	+0.1	8.46	4.03	14.96	1.56	1071.97	1072.31	1084.06	1350.64
70	Other Financial (28)	319.45	+1.0	13.59	6.67	9.71	2.37	316.15	314.79	314.21	388.15
71	Investment Trusts (68)	1157.98	+0.6	–	3.26	–	6.56	1150.69	1148.75	1151.74	1115.74
91	Overseas Traders (5)	1379.89	+1.2	9.35	6.63	12.93	30.79	1363.97	1359.46	1364.80	1403.12
99	ALL-SHARE INDEX (687)	1107.98	+0.2	–	4.78	–	7.10	1106.27	1105.46	1110.85	1099.58

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Mar 13	Mar 12	Mar 9	Mar 8	Mar 7	Year ago
FT-SE 100 SHARE INDEX‡	2226.1	+1.6	2238.3	2223.2	2224.5	2222.8	2234.3	2250.0	2230.3	2121.2

FIXED INTEREST

	PRICE INDICES	Wed Mar 14	Day's change %	Tue Mar 13	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	113.03	+0.23	112.77	–	2.57
2	5-15 years	118.50	+0.65	117.73	–	2.41
3	Over 15 years	121.27	+0.97	120.10	–	4.16
4	Irredeemables	139.38	+0.34	138.90	–	1.51
5	All stocks	118.58	+0.54	117.94	–	2.73
	Index-Linked					
6	Up to 5 years	139.66	....	139.66	–	0.94
7	Over 5 years	132.36	+0.05	132.29	–	1.05
8	All stocks	132.80	+0.05	132.73	–	1.04
9	Debentures & Loans	96.49	-0.20	96.68	–	2.35
10	Preference	76.74	-0.09	76.81	–	1.49

	AVERAGE GROSS REDEMPTION YIELDS		Wed Mar 14	Tue Mar 13	Year ago (approx.)
	British Government				
1	Low	5 years	11.58	11.60	9.30
2	Coupons	15 years	11.21	11.29	8.94
3		25 years	11.09	11.18	8.76
4	Medium	5 years	12.88	13.00	10.32
5	Coupons	15 years	11.62	11.73	9.36
6		25 years	11.20	11.29	8.93
7	High	5 years	12.98	13.10	10.45
8	Coupons	15 years	11.91	12.02	9.58
9		25 years	11.43	11.52	9.11
10	Irredeemables†		11.14	11.17	8.68
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.74	4.72	3.44
12	Inflation rate 5%	Over 5 yrs.	4.11	4.11	3.48
13	Inflation rate 10%	Up to 5 yrs.	3.83	3.82	2.61
14	Inflation rate 10%	Over 5 yrs.	3.94	3.94	3.32
15	Debs &	5 years	15.77	15.77	12.08
16	Loans	15 years	14.11	14.13	11.31
17		25 years	13.42	13.39	10.72
18	Preference†		12.02	12.01	10.01

‡Opening Index 2224.4; 10 am 2237.2; 11 am 2234.9; Noon 2236.1; 1 pm 2233.0; 2 pm 2232.2; 3 pm 2232.6; 3.30 pm 2233.1; 4 pm 2232.7 (a) 10.12am (b) 9.15am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.
NAME CHANGE (13/3/90): English China Clays (10) has become ECC Group.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	81	2	14
Corporations, Dominion and Foreign Bonds	7	1	18
Industrials	319	312	962
Financial and Properties	179	136	390
Oils	17	27	47
Plantations	0	3	7
Mines	40	44	74
Others	62	76	121
Totals	705	601	1,633

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989/90 High	1989/90 Low	Stock	Closing Price p	+or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
‡125	F.P.	–	128	121	ABI Leisure 10p	122	+1	R4.7	3.3	5.1	8.8
§14	F.P.	–	17½	15	§ADG Group 5p	17½		R0.5	3.7	3.8	5.9
–	F.P.	–	508	485	Abtrust New Euro. I.T.	493	+2	–	–	–	–
–	F.P.	–	1½	¾	§Atlantic Res. Warrants	1		–	–	–	–
100	F.P.	–	101	97	BZW Conv. Inv. Tst. 10p	98		–	–	–	–
100	F.P.	–	97	91	Beta Global Emg. I.T. 10p	92	+2	–	–	–	–
–	F.P.	–	28	25	Do. Warrants	26		–	–	–	–
§42	F.P.	–	45	37	*Biocure 1p	42		–	–	–	–
†	F.P.	–	300	300	*Chartwell Group £1	300		R1.0	–	0.4	–
†	F.P.	–	215	215	*Citybond Storage Serv. £1	215		–	–	–	–
–	F.P.	–	4½	1	Courtwell Group Wrnts.	2½		–	–	–	–
§§48	F.P.	–	47	46	§Dakota Group 1c25p	47		¤04.6%	4.0	2.5	11.9
‡	F.P.	–	148	135	F & C Germany Inv. Tst.	137	+1	2.0	1.0	2.0	–
–	F.P.	–	49	36	First Philipps. Inv. Tst.	39	+8	–	–	–	–
–	F.P.	–	22	15	Do. Warrants	15		–	–	–	–
†	F.P.	–	560	525	Five Arrows Chile Fd	560	+14	–	–	–	–
–	F.P.	–	250	140	Do. Warrants	250		–	–	–	–
$10.6	F.P.	–	644	584	GT Chile Fund Units	609		–	–	–	–
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¥ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¤ Unlisted securities market. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Mar 5
- Last Dealings Mar 16
- Last Declarations June 7
- For settlement June 18

For rate indications see end of London Share Service

Calls in: Peters (Michael), Oliver Res., ML Labs., Harmony Gold, Berisford Intl., De La Rue, Queens Moat Houses, Harrisons & Crosfield, Autos of Distinction, Butte Mining, Aviva Pet., Conroy Pet., Brit. & Comm., Control Securities, Trimoco, Gaelic Res. and Tuskar Res.

LONDON TRADED OPTIONS

A large seller of July calls and puts boosted turnover in British Telecom yesterday in an otherwise thinly traded market. Meanwhile, in the futures market prices were boosted by an early buyer, which prompted some follow through activity in options.

In the BT trade, Hoare Govett sold 1,500 July 280 calls at 15½p and 1,500 of the July 260 puts for 6½p. The deal was said to be neutral and would maximise returns if BT shares traded between 260 to 280p. BT was a penny easier at 271½p on a turnover of 2.8m shares.

The transaction accounted for the bulk of the 3,214 BT options traded. Yesterday's total was made up of 1,526 calls and 1,688 puts.

In the rest of the options market, activity remained depressed as dealing on the underlying securities was lower before the UK budget due on Tuesday.

Total market turnover amounted to 24,311 contracts, of which 15,630 were calls and 8,681 were puts. Yesterday's total compared with 23,047 in the previous session.

The FT-SE 100 index option was the busiest contract, trading 5,483 lots, against 6,426 on Tuesday. Yesterday's total was made up of 3,290 calls and 2,193 puts. The March 2,100 call series was the busiest, with 826 lots changing hands. BZW were active in the market, buying 500 April 2,250 calls in one deal. In another, it bought 900 March 2,100 calls and sold 900 May 2,200 calls, which was said to be a mildly bullish trade.

In the futures market, early buying pushed the March index from a 3 to a 10 point premium over the cash equivalent. This pushed the underlying market higher and also prompted buying of calls and selling of puts. March closed 11 higher at 2,237, having traded 3,312 against 4,515 in the previous session.

Rolls Royce was active before its final results today with call buyers noted. Trusthouse Forte again featured, trading 1,600 lots, and was said to boosted by call selling against warrants.

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Allied Lyons (*434)	420	27	37	52	8	17	22
	460	8	18	32	31	39	43
	500	2½	7	19	70	72	72
ASDA (*110)	100	14	19	22	2½	5	6½
	110	5	14	15	6	8	11
Brit. Airways (*204)	180	28	30	37	1½	4	6
	200	12	16	25	6½	12	14
	220	4	9	16	18	25	26
Brit. Com. (*66)	60	10	14	17	5	7	12
	70	5	10	13	9	15	17
Ultramar (*371)	360	25	42	52	10	15	20
	390	8	25	35	25	30	35

Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Brit. Aero (*505)	500	25	46	60	32	33	42
	550	10½	24	37	65	70	72
BAA (*389)	360	43	50	67	4	10	12
	390	23	31	45	16	18	25
BAT Inds (*805)	800	32	63	90	29	36	40
	850	17	35	57	60	65	70

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Amstrad (*54)	50	4	9	13	1	4½	6½
	60	1	5	8	8	10½	12½
Barclays (*565)	550	20	51	65	4	13	23
	600	2	21	35	34	35	47
Blue Circle (*222)	220	6	15	24	4	15	15
	240	–	6	13	–	28	30
British Gas (*215)	200	16	24	27	1	4	6
	220	1½	12	15	6½	10	14
[illegible]							

March 14 Total Contracts 24,311. Calls 15,630 Puts 8,681. FT-SE Index Calls N/A Puts N/A. Euro FT-SE Calls N/A Puts N/A. *Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

Buoyant art market helps auctioneer's sales break through the £1bn barrier

Christies shows 58% advance to £66.9m

By Clare Pearson

SALES OF Christies International, the auctioneer, last year passed the £1bn mark for the first time reflecting the continued buoyancy of the art market.

After a 71 per cent increase, sales totalled £1.33bn.

Pre-tax profits for 1989 rose 58 per cent to £66.94m (£42.48m), translating into a rise in earnings per share to 23.37p (14.76p). A proposed final dividend of 6p makes for a hefty 68 per cent increase in the total to 8p (4.75p).

Mr Christopher Davidge, Christies managing director, said sales in the first ten weeks were ahead of the equivalent period last year, although the company was not yet into the important auction period.

He said 1989 had seen a continued broadening of the kinds of new buyers coming into the art market, as well as an increase in their numbers. Frequently, they focused on contemporary works, which was reflected in the leap in sales in this emerging category.

With the USA proving a good source of supply as well as demand for art, New York's share of total sales rose to 53 per cent.

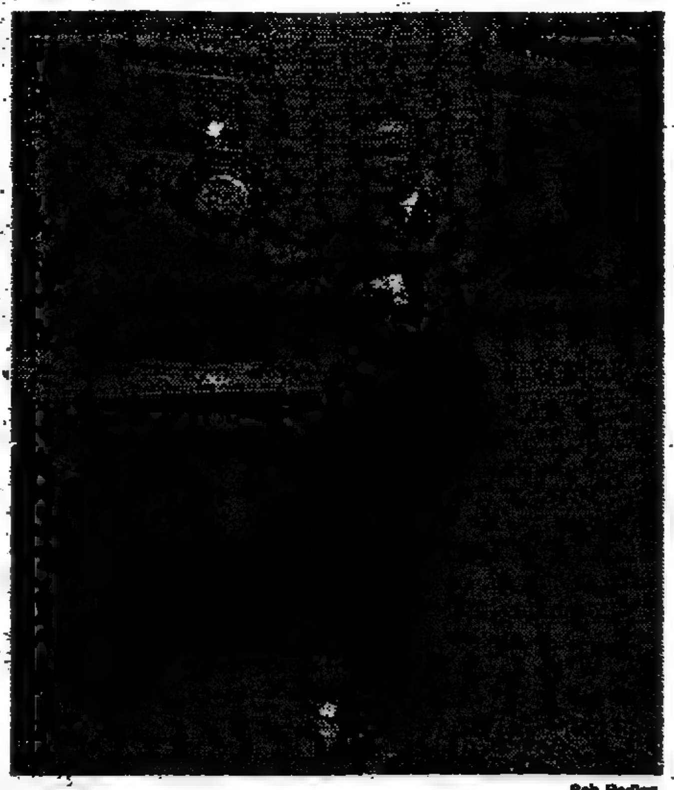
The company went on a recruitment drive during the year, effecting 19 senior internal promotions and 18 external appointments. These culminated in January in the recruitment of Mr Emmanuel de Margerie, former US ambassador to France.

Increased staffing costs were reflected in increased administrative expenses, which rose from £27.05m to £42.67m. But with net cash rising to £55m, net interest income reached £5.09m (£2.09m).

On the stake in Christies held by ADT – recently increased from 8.5 to 9.5 per cent – Mr Davidge said: "Michael Ashcroft (ADT's chairman) frequently trades shares and I should think he thinks we are a good investment."

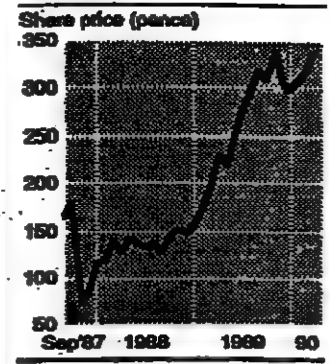
Aska International, the Japanese finance and insurance company headed by Mr Yasumichi Marishita, last autumn bought a 6.5 per cent holding.

Sotheby's Holdings, Christies' bigger competitor, which is listed in London and New York, also yesterday announced audited results for last year confirming preliminary figures showing an 82 per cent increase in net income to from $62m to $113m (£70m). Sotheby's increased total dividends for the year to $1.13, almost double 1988's payment.



Rob Hadley
Christopher Davidge: broadening of buyers in the art market

Christies



SALES BREAKDOWN

Category	£m	+%
Impressionist & modern art	324	88
Other pictures	141	58
Contemporary art	117	143
Old masters	95	125
Jewellery	92	9
Other	83	51
Furniture	74	36
Decorative arts	73	28
Oriental works	72	61
Drawings & prints	34	54
Vintage motor cars	25	178

● COMMENT

The Cassandras continue to look in vain for signs that the art market boom is about to go into decline. There were signs of increasing selectivity at the top-end at last November's New York sales, but that was hardly surprising considering the huge increase in the overall volume of the sales. Nevertheless, though this is notoriously difficult to predict, no one currently dares to expect 1990 will equal 1989's staggering advance at Christies. One main reason is that supply is just as important as demand in the auction business, and it is hard to imagine such a fortuitous flow of big collections onto the market for a second year in succession. For another, the company's margins will under pressure from the costs of its new personnel – although the accumulation of yet more cash will work to offset this. It is probably safe to expect a pre-tax result not much better than last year's. The shares stand on a premium prospective p/e of about 13. This is where they should be, underpinned by the presence of those two art collectors Mr Ashcroft and Mr Marishita.

Hunter Saphir warning

By Clay Harris, Consumer Industries Editor

HUNTER SAPHIR, the food group in which Berisford International has a 20 per cent stake, is to buy Ten Doesschate, a Dutch herbs and spices supplier, for up to £15.4m cash.

It also warned that pre-tax profits in the second half of the year which ended on February 28 would be lower than the £2.95m reported in the same period of 1988-89. Hunter Saphir shares closed 4p lower at 114p.

Mr Nicholas Saphir, chairman, blamed the profits fall on a fire at British Pepper and Spice's factory at Northampton.

The first instalment of insurance money would not offset the decline, he said. He gave no indication how full-year profits would compare with the £6.05m achieved in 1988-89.

Hunter Saphir is paying an initial £13.1m for Ten Doesschate, which sells herbs and spices under the Euroma brand and private labels.

The Dutch group has warranted operating profits of at least Fl 4.7m (£1.5m) for 1989. Additional payments are linked to future profits.

The UK company also plans to sell its 605-acre farm near Maidstone, Kent. Mr Saphir's personal purchase of 110.6 acres is subject to shareholder approval.

Hunter Saphir is Berisford's poison peppercorn. Voting rights over the 20 per cent stake are controlled by two Hunter Saphir directors.

By agreement between the two companies, if control of Berisford passed to unfriendly hands, Hunter Saphir could force the new owner to sell the stake to its stockbroker at a discount to the market price.

Flushing clarifies Berisford position

By Clay Harris

BERISFORD International, the troubled sugar and property group, was not referring to Mr Larry Goodman, the Irish agri-businessman, when it said last week that it was in preliminary talks which could lead to a takeover bid.

Flushing, a Goodman company, said yesterday it had raised its stake in Berisford to 12.67 per cent with the purchase of 250,000 shares on Tuesday at 148p each.

In the disclosure, made under Rule 8 of the Takeover Code, Flushing said it was not an associate of the "offeror."

Because of that statement, the Takeover Panel said yesterday it would be very concerned if Mr Goodman turned out to be the party which Berisford referred to on Friday. It has been established independently, however, that he is not.

Note 12 to Rule 8 of the Code states: "If a potential offeror has been the subject of an announcement that talks are taking place (whether or not the potential offeror has been named) or has announced that he is considering making an offer, the potential offeror and persons acting in concert with it must disclose dealings . . . and such disclosures must include the identity of the potential offeror."

It is possible that Mr Goodman and Berisford have subsequently made contact. Berisford's advisers said yesterday negotiations with the original unnamed party were continuing and expressions of interests had come in from other sources.

Associated British Foods, which owns 23 per cent of Berisford, has received answers to its questions about any links between Berisford directors and the company's Manhattan property investments.

Mr Ari Margulies, son of Mr Ephraim Margulies, who resigned as chairman last Friday, has a small indirect interest in one property. The syndicate in which the younger Mr Margulies has a 1 per cent stake has not, however, been bought out by Berisford, as were other partners. It was also confirmed that Mr Howard Zuckerman, chief executive of Berisford's US subsidiary, and two of the outside partners invested together in other property deals not related to Berisford.

Alphameric forecasts £11m loss

By Vanessa Houlder

Alphameric, the troubled keyboard and terminal manufacturer, yesterday accompanied a forecast of an £11m loss for the year to the end of March, with news of a rights issue, a major divestment and top-level management changes.

The company is selling its data broadcasting business to British Aerospace for £2.25m, which will reduce group borrowings of about £8m by £6m. It has also launched a £3.6m rights issue at 5p per share on a 18-for 5 basis.

These moves follow a strategic review carried out by Octagon Industries. Mr Geoff Bristow, managing director of Octagon will become chairman, Mr Rodney Hornstein becomes chief executive and Mr Robb Wilmot becomes a non-executive director. Mr Douglas Craig-Wood, the present chairman, will become a non-executive director.

Claims rise fails to halt Trade Indemnity

By Peter Montagnon, World Trade Editor

Pre-tax profits at Trade Indemnity, the credit insurer, rose 36 per cent in 1989 to £17.2m in spite of a sharp increase in business failures.

Announcing its results yesterday, the company said it paid out a record £32.4m in claims during 1989, up £8m on the previous year.

UK business failures notified to the company last year rose by 21 per cent and a further increase is expected in 1990 so claim payments are once again expected to be high this year, according to Mr Richard Duggan, managing director.

However, the uncertain business climate was also leading to higher premium income as rates hardened and more companies sought insurance cover, he added. Last year premium income was £98.6m (£87.2m).

Premium income from export credit insurance grew £1m to £7.8m, Mr Duggan said.

A proposed final dividend of 1.22p makes 1.9p for the year, up 36 per cent. Earnings rose 40 per cent to 10.29p.

Templeton Emerging plans £18.3m rights issue

By Nikki Tait

TEMPLETON Emerging Markets Investment Trust, which came to the market via an offer for subscription last May, is planning to raise another £18.3m via a rights issue.

The trust is one of the rare creatures within its sector which has seen its shares generally trade at a premium to underlying net asset value. As a result, such a move is possible.

The terms of the underwritten rights issue, for ordinary shareholders, are one new unit at 633p for every ten shares held. Convertible stockholders are offered one new unit for every £10 nominal of convertible stock.

Each new unit comprises five ordinary shares and 2.19 warrants. The rights price compares with a net asset value at end-February of 126.11p per share. If the value of the warrants is excluded from the units, the rights price is at a very modest premium to underlying asset value of the shares.

The company said that there were still attractive investment opportunities and the additional funds will be invested in line with already-stated aims.

At end-February, the trust had holdings in some 15 countries, ranging from New Zealand to Chile. The largest geographical weightings were in Mexico, Turkey and Hong Kong. About 7.5 per cent of assets were in liquid form.

Rex Williams disposals continue

Rex Williams Leisure is continuing with its disposal programme; this includes the sale and leaseback of property surplus to the group's requirements, raising £400,000, to be completed later this month.

Company has also brought forward the outstanding payments on the sale of its Polyfast subsidiary bringing in £160,000.

UK COMPANY NEWS

Chairman says Rover deal was not 'end-of-season free transfer'

Aircraft help BAe rise to £333m

By Paul Betts, Aerospace Correspondent

BRITISH AEROSPACE yesterday reported a 29 per cent rise in 1989 pre-tax profits from £259m to £333m and, at the same time, defended its takeover of Rover Group, claiming that the negotiations for the car maker had been conducted openly and in good faith.

Professor Roland Smith, BAe chairman, said the company had not received any formal representation from the Department of Trade & Industry or the European Commission to "alter the terms and conditions of our legally binding agreement".

The all-party Commons Trade & Industry Select Committee is looking at £38m in tax "sweeteners" granted to BAe during its 1988 acquisition of Rover.

On the Rover issue, Professor Smith said BAe would "do whatever is required by the law. We have said that from the start." He added: "The board of BAe negotiated in good faith in a totally open manner with ministers for the purchase of the Rover Group. The impression has been conveyed that the sale was treated as an end-of-season free transfer or a deal between friends. It was nothing of the kind."

Rover contributed £64m in 1989 to BAe's trading profits of £441m.

Rob Hadley

Professor Smith: 'The board of BAe negotiated in good faith'

Mr Dick Evans, BAe's chief executive, said that the strike over working hours at three BAe plants had cost the company £28m last year. This cost was offset against the £68m gains from the sale of stakes in DAF and Istel Holdings. Exceptional items thus contributed £40m to pre-tax profits.

Although BAe could face heavy claims from other Airbus partners for the costs incurred by the European aircraft consortium as a result of the strike, Mr Evans said, the company would vigorously reject any such claims.

BAe's commercial aircraft division returned to profit last year with a trading profit of £15m (losses £38m). Mr Evans said the company continued to be encouraged by the growth prospects of the commercial aircraft business. Despite the impact of the strike, commercial aircraft sales rose to £1.4bn (£998m).

Trading profits from defence-related activities totalled £300m (£298m) on sales of £3.84bn (£3.16bn). As expected, weapons and electronic systems saw trading profits decline to £74m in 1989 from £115m the previous year while military aircraft earnings rose to £226m from £183m in 1988.

Professor Smith also said the group intended to pursue its policy of developing international alliances and expanding its presence in international markets. This was at the same time as continuing to broaden the overall base of its businesses. He said BAe was especially interested in a strategic alliance in the US.

Overall, group turnover rose 59 per cent to £9.09bn (£5.71bn) while earnings per share rose to 82.8p (62p). The directors have proposed a final dividend of 14.6p to make a total of 22.7p (20.6p) for the year.

See Lex

Rover trading profits lower at £64m

By Kevin Done, Motor Industry Correspondent

ROVER GROUP, the vehicles subsidiary of British Aerospace, barely improved its slender profit margin last year and remained one of the least profitable car makers in Europe despite record overall demand in the European new car market.

The formerly state-owned Rover vehicle operations, taken over by BAe in August 1988, achieved a trading profit of £64m – including profits from related companies – last year. This was a slight fall from the £65.7m of 1988.

Mr Dudley Eustace, BAe finance director, said that Rover's underlying trading profit, excluding profits from related companies – such as DAF, Istel and Unipart – increased to some £51m last year from £41m in 1988.

Rover's profits from related companies fell to £13m compared with £25m in 1988 following the reduction in its stake in DAF, the Dutch truck maker, from 40 to 16 per cent and the sale of its 24 per cent stake in Istel, the software house.

These deals raised £68m in exceptional profits.

Rover turnover rose by 6.4 per cent to £3.43bn – 38 per cent of BAe group turnover – from £3.22bn a year earlier. Rover's export sales increased by 16 per cent to £1.06bn against £908m in 1988.

BAe's deal with Honda, under which the Japanese car maker was due to take a 20 per cent stake in the Rover vehicle operations, should be completed by mid-May, said Professor Roland Smith, BAe chairman.

The deal was originally due to be completed by the end of last year.

BAe refused to disclose whether the Rover car operations were in loss last year, but it is clear that the lion's share of Rover's trading profit was derived from the increasingly successful Land Rover four-wheel drive business.

BAe is hopeful that Rover's profits will pick up in 1991, following a series of costly new product launches in late 1989 and 1990 including the Rover 200/400, a revamped Metro, the K-Series engine and the Land Rover Discovery.

Rover's production of cars and car-derived vans fell by 3.7 per cent last year to 456,193 from 473,750 in 1988.

In stark contrast the fortunes of the Land Rover four-wheel drive operations flourished last year with a 19 per cent increase in production to 55,000 from 46,250 in 1988. The division achieved record Range Rover sales with a 16 per cent increase to 28,098.

Beazer up 16% in spite of tough UK market conditions

By John Thornhill

BEAZER, the housebuilding and construction company, lifted pre-tax profits by 16 per cent from £54.5m to £63m in the six months to December 31 1989, in spite of tough market conditions in the UK.

Beazer's UK housebuilding interests were badly hit by the downturn in the housing market and the division's operating profits fell by £19.2m to £38.8m.

But this was more than offset by a strong contribution from its building materials interests, including the former Koppers business, and a return to profitability by its contracting operations.

The company – which claims to be the fourth largest housebuilder in the UK – sold 2,354 units during the period and said its target remained 5,590 for the year.

Mr Brian Beazer, chairman, estimated that the overall market had fallen by about 20-25 per cent but said Beazer had experienced only a 10 per cent decline because of its wide geographical spread and its exposure to the first time buyers' market, which had been less severely affected.

Beazer's contracting activities, which recorded a loss of £5.4m in the comparable period after its French Kier subsidiary got into difficulties, recovered strongly notching up trading profits of £10.9m.

Mr Beazer said the company's building material operations had reported an excellent performance as trading profits grew from £55.1m to £62m.

He said the company had substantial interests in California and expected to benefit from the increased volume of infrastructure work following the San Francisco Bay earthquake.

Net debt at the end of 1989 was £1.03bn compared with £1.09bn at the beginning of the half and the company said it would not come down substantially by the end of the current year.

Mr Beazer defended the company's decision to diversify into the US as a sound one and said that its asset base and spread of businesses augured well for the future.

"We have a robust business which will still be robust even under the most pessimistic of assumptions," he said.

Turnover rose sharply to £1.16bn (£777.3m). The directors declared a 10 per cent rise in the interim dividend to 2.7p (2.45p) while fully diluted earnings per share were 16 per cent ahead at 13.01p (11.23p).

Beazer's shares firmed 5p to 158p yesterday.

USDC assets rise

USDC Investment Trust net asset value per £1 ordinary was 212.9p at December 31 1989 against 155.7p a year earlier. Net revenue for period £1.8m (£1.46m) and earnings per share 4.92p (3.98p). The final dividend is 2.85p (2.5p) for a 3.85p (3.5p) total.

Hillsdown matches analysts' expectations with £195.6m

By Nikki Tait

DESPITE its exposure to the difficult property, housebuilding and furniture markets, Hillsdown Holdings yesterday unveiled pre-tax profits for 1989 of £195.6m, roughly in line with analysts' estimates.

However, the figure benefited from an £8m pension holiday, which the group expects to continue for "the foreseeable future" but which analysts generally had not factored into their forecasts. The shares slipped 7p to 246p in spite of a small share buy-back by the company.

The pre-tax profit compared with £150.9m for the previous year. However, direct parallels are complicated by acquisitions and disposals – notably, Premier Brands, which made a six-month contribution in 1989, while the Cartwright Brice stationery business was sold in September. A majority stake in Hunter, the timber business, was also sold in August 1988.

Earnings per share rose by 17 per cent to 29.6p (25.3p) on a fully-diluted basis. The figure was affected by Hillsdown's rising tax charge, up from 17.9 to 20 per cent last year. The group expects the tax charge to rise by roughly 4 percentage points a year.

The dominant food business benefited from a sharp second-half recovery within the poultry and eggs division, with only the US poultry operations still difficult.

Premier contributed £23m, several million below expectations, due to the jump in tea prices, which hit its Typhoo brand. But other business generally fared well.

In furniture, disposals made direct comparison impossible, but, adjusting for this, profits were roughly in line between the two years. Hillsdown expects a difficult year ahead on the domestic front, but points to its sizable office furniture business, which has proved more resilient.

It also warned of a downturn on housebuilding/property this year, although the number of plots developed would increase from about 900 to 1,200 and it has generally been adding to its land-bank.

The interest charge was £36.3m (£44.1m), with year-end gearing little changed at about 62 per cent. Capital expenditure last year was about £120m, but is expected to fall slightly in the current 12 months. Aside from Premier, some £150m was spent on acquisitions, mainly fairly small-scale - a pattern which Hillsdown expects to continue.

The final dividend is 5.4p (4.5p), making 7.2p (6p) for the year.

See Lex

RESULTS BY DIVISION

Division	Sales (£bn) 1989 (88)	Trading profit (£bn) 1989 (88)
Food processing/ distribution	1.44 (1.18)	95.4 (81.7)
Poultry & eggs	0.76 (0.71)	20.4 (18.4)
Fresh meat & bacon	0.75 (0.84)	25.4 (21.5)
Furniture	0.33 (0.68)	24.4 (48.3)
Housebuilding/ property	0.24 (0.16)	57.0 (43.8)
Specialist operations	0.17 (0.18)	12.9 (14.1)
Less: head office costs		3.6 (3.1)
Total	3.69 (3.55)	231.3 (195.0)

SeaCon confident on agm

By Andrew Hill

MR JAMES Sherwood, president of Sea Containers, may face tough questions at today's annual meeting of the ferry and container group about his defence of the company during a year-long takeover bid, and his plans for its future.

Sea Containers, however, is confident about the outcome of the meeting, which is generally expected to end the year-long struggle for control of the company. It cleared one obstacle yesterday by withdrawing from a deal to sell its tank containers to Itel Corporation, and agreeing to pay the US company $3.35m in compensation.

The Itel deal was part of Sea Containers' original asset disposal defence against a hostile $1.12bn bid from Tiphook, the UK container rental group, and Stena, a private Swedish shipping company. But in January, they said they would drop their $1.12bn hostile bid for Sea Containers, and replace it with a $1.1bn plan to buy certain assets from Sea Containers, which owns Sealink British Ferries.

Sea Containers had already agreed to pay $5m compensation to Genstar, one of Itel's competitors, having pulled out of a similar agreement to sell the group its fleet of standard cargo containers and chassis.

Shareholders will vote on the disposals to Stena and Tiphook, and a $70 per share tender offer for about half its own equity, at today's meeting. One large Chicago-based investor, which would not be identified, said it planned to object to the tender offer and hoped to lobby other investors at the Bermuda meeting to vote against Sea Containers' plans.

Sea Containers' directors and subsidiaries own some 26 per cent of the group's equity. Unusually, they will be able to vote that stock in favour of the recapitalisation plan following a crucial decision by the Bermuda Supreme Court during the takeover battle.

The stake should be enough to swing the vote in Sea Containers' favour, but a spokesman for the Chicago shareholder claimed shareholders were "confused, disappointed and somewhat angry". He said he feared the eventual value of the Sea Containers deal might be less than the $70 per share which Mr Sherwood had promised throughout the battle for control of the group.

If more than 7m shares are tendered to the Sea Containers offer, unpurchased shares will be returned to investors. Mr Sherwood said yesterday that he would be indicating to investors and analysts after tomorrow's meeting that the underlying value of shares in the continuing business of Sea Containers could be as much as $170 per share.

Spice falls into the red with £6.4m loss

By Andrew Hill

SPICE, the troubled motor parts distributor, yesterday unveiled further problems when it announced a loss of £6.37m before tax in the year to September 30, against a profit of £23,000 in 1987-88.

Since the beginning of 1989, the USM company has sold its national distribution centre and three wholesale cash-and-carry centres, cut its staff from 383 to 35, and held two rights issues.

The group said yesterday that the £2m proceeds of the second rights issue last August were absorbed by the loss of cash flow between March and September as suppliers were reluctant to commit stock to the troubled group.

Two directors appointed in October declined to take up the positions and have been replaced. The company has retrenched its operations around the Staines cash-and-carry centre and intends to establish a tied retailer supply service. It also intends to change its year-end to March 31.

There was a loss per share of 45.8p during the year, compared with earnings of 0.5p in 1987-88, and no dividend was recommended.

Blue Circle sells foundry for £1

Blue Circle, the cement, brick and home products group, has sold its loss-making Sterling International Technology castings business to Triplex Lloyd, the Midlands-based engineering group, for a nominal £1.

Blue Circle recently sold its other four foundry businesses to Thyssen, the West German industrial group, for £35m.

The foundries were acquired when Blue Circle bought Birmid Qualcast in October 1988. It decided to keep the consumer product activities but put the foundries up for sale.

Triplex is buying Sterling complete with positive cash balances of about £1m, but will also take on substantial provisions for restructuring.

Acquisition helps Wickes to £38m

By Maggie Urry

WICKES, the DIY retailer and timber group, yesterday reported a sharp rise in profits for the year to end December. Pre-tax profits jumped from £16.3m to £38.1m, helped by the inclusion for a full year of Hunter Timber, acquired in September 1988 for £283m. Group turnover rose from £261.2m to £683.7m.

Had Hunter been owned for the whole of 1988 the sales growth would have been 3 per cent and the pre-tax profits increase 23.8 per cent. Hunter is a timber importer and distributor, and owns Malden Timber, a retail chain.

Mr Henry Sweetbaum, chairman and chief executive, warned that rising interest rates and the collapse of the housing market "are bound adversely to impact our business during 1990."

The inclusion of Hunter had helped margins as the group was now buying in bigger volumes and therefore getting better terms from suppliers, Mr Sweetbaum said.

Rationalisation of the business would continue, he said. Since the Hunter acquisition disposals had helped to reduce borrowings by £96m to £151m at the year end. Reorganisation of the Hunter business had cut out 800 jobs, reducing the group's cost base. The rationalisation costs were covered by a provision made at the time of the acquisition, he said.

Mr Sweetbaum said sales in its like-for-like UK stores showed a 1 per cent gain, implying a fall in volume in the second half of the year. In the continental European stores, in Belgium and the Netherlands, like-for-like sales rose by 4 per cent. Wickes opened its first store in France earlier this month.

Profits benefited by £3.05m (£1.62m) from property development profits. The interest charge more than trebled to £21.12m (£6.22m) as a result of the Hunter purchase. Fully diluted earnings per share were 20.2p, a 24 per cent increase. A final dividend of 3p gives a total of 4p (3.5p) for the year.

● COMMENT

Wickes is shuffled between analysts covering the retail and the builders' merchants sectors, with its shares suffering as a result. Were it to come only within the retail sector its shares would probably be higher than the 170p they closed, up 1p on the results. It has clearly built itself a niche in the heavier end of the DIY industry, and has differentiated itself from the other DIY retailers. Even so, current trading conditions are hardly encouraging and any fall in interest rates – as yet unforecast – would probably take a while to work through to a more buoyant housing market. It would be a bold move to buy the shares ahead of next week's budget. But if profits reach £40m this year, the prospective p/e is around 8, which is low by retail standards, and may prove good value in the longer term.

Lambert in the black with £3.27m

LAMBERT HOWARTH, the footwear group yesterday announced a return to profits following a fraught year in which it fought off a takeover bid, was involved in discussions over a possible offer (subsequently terminated) and was engaged in restructuring.

Before tax, and including exceptional profits of £1.18m from the disposal of its property at York Way, London, profits emerged at £3.27m compared with a loss of £615,000 in 1988. The progress was achieved on turnover marginally higher at £45.81m (44.32m).

The extraordinary item of £113,000 represented bid defence costs and the net cost from the disposal of Custom Cases.

Earnings came through at 38p, against a previous loss of 5.8p, or 24.1p (2.2p loss) before exceptional items. The proposed final dividend of 7p makes a total of 10p (8.5p).

Mr Martin Jourdan, who retires as chairman at the agm to be succeeded by Mr Roger Rowland, said that in a generally dull market for footwear the progress of the group under its restructured management had been, and continued to be, excellent.

The current year had started with a strong order book.

Abbott Mead advances 21% to £5.9m in spite of 'sore throat'

By Andrew Hill

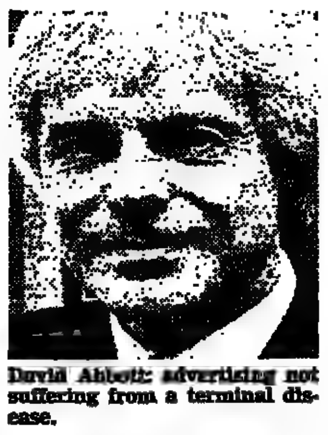
ABBOTT MEAD Vickers, the advertising agency, boosted profits by nearly 21 per cent last year, making £5.85m before tax, compared with £4.84m in 1988, and defying the City's pessimism about the sector.

Mr David Abbott, the agency's chairman, said yesterday: "Advertising isn't suffering from a terminal disease – it may have a sore throat; but it's an up-front part of clients' business, not an optional extra."

The group said that seven of its top 10 clients – which include Volvo, Comet, J Sainsbury and the Observer newspaper – increased their spending on advertising last year.

Overall, AMV increased turnover to £123m (£103m) and gained net billings of £30m during the year. Yesterday it announced it had won a new account from Royal Bank of Scotland and that one of its biggest clients – Comet, the chain of discount electrical stores – had committed extra advertising expenditure as part of the promotion of British Satellite Broadcasting.

Earnings per share increased from 23.52p to 27.05p and the company recommended a final dividend of



David Abbott: advertising not suffering from a terminal disease.

4.8p, which would make 7.2p (6p) for the year.

It has been a mixed week for advertising and marketing groups. On Monday Yellowhammer, previously regarded as one of the most stable and reliable UK advertising agencies, warned it would lose £3.6m before tax in 1989-90, having overstretched itself in Europe. Two days ago, Mr Maurice Saatchi, one of the best-known figures in the sector, had to defend himself against strong criticism from shareholders at Saatchi & Saatchi's annual meeting. However, on the same day as Yellowhammer's warning, Lowe Group unveiled a 30 per cent increase in annual profits.

AMV, which has not pursued an aggressive expansion policy overseas, announced yesterday that it had written off £590,000 spent during the last three years while negotiating to buy Scali McCabe Sloves, a US agency which owns 23 per cent of AMV. The cost was taken as an extraordinary charge.

AMV said it had been close to a deal with Ogilvy Group, SMS's parent, but it fell through following last year's takeover of Ogilvy by WPP Group, the UK advertising company.

Mr Abbott confirmed yesterday that AMV would continue its prudent policy of expansion. "Just having dots on the map doesn't always lead to pounds on the bottom line as I think some other public agencies have found," he said.

He added that the group had finished 1989 with net cash balances of £3.7m. That helped push up interest payments from £311,000 to £653,000.

AMV's shares, which have been held back by the poor City perception of the advertising industry, rose just 2p to 258p yesterday.

Foregone conclusions at Sock Shop's meeting

By Maggie Urry

SOCK SHOP International, the hosiery retailer, yesterday held the special meeting which had been called before it appointed administrators under the Insolvency Act. The meeting had thus been overtaken by events.

The group is still working on a refinancing, first announced in mid-January, but there is still no date set for a conclusion of talks with new backers. The shares, quoted on the USM, have been suspended since the proposal to appoint administrators was announced in February.

At the meeting the group's borrowing powers were increased to the greater of £20m or 3½ times shareholders' funds. Since Ms Sophie Mirman, chairman and joint managing director, and her husband Mr Richard Ross, joint managing director, hold over 80 per cent of the shares, the vote was a foregone conclusion. Ms Mirman's and Mr Ross's stake is likely to fall below 50 per cent as a result of the forthcoming refinancing package.

The meeting had also been called to discuss steps the group should take to deal with the reduction in the its net assets to below half of the share capital. Since calling the meeting the step of asking administrators in had been taken on February 21, Ms Mirman told the meeting. The administrators arenow running the company and attempting to keep it as a going concern.

Wace strengthens French position with £5m buy

WACE GROUP, the pre-press services concern, is to acquire Graphic Maillot for an initial consideration of FFr47.61m (£5.13m). Of this, FFr30.95m will be paid in cash, with the balance in shares.

Together with the proposed purchase of Photogravure del'Ouest, the acquisition of Maillot will consolidate its position in France, though the deal is subject to prior declaration to the French Treasury.

Maillot is one of the leading pre-press service companies to the French advertising industry. In 1989 it made pre-tax profits of FFr8.9m on turnover of FFr23.8m. At the year-end its net assets were FFr10.3m.

Further consideration, up to a maximum of FFr22.39m, depends on profits.

Allied Insurance rises 39% in year of change

PROFITS expanded 39 per cent during a year of change at Allied Insurance Brokers Group.

At the taxable level, profits at this USM-quoted group, grew from a merger-accounted £1.19m to £1.65m on income raised from £4.52m to £6.06m.

Earnings per share, before exceptional items, worked through 34 per cent ahead at 10.27p (7.65p) and the directors recommended a final dividend of 2.5p, for an increased total of 3.5p (2.5p).

Mr Nigel Cayzer, chairman, said the reorganisation of the group into separate operating units had been successful in reducing and containing expenses and maximising income – indeed Allied's original business increased 32 per cent to £602,000.

The financial services division was strengthened by the acquisition of Daydell and of Neil Lewis & Associates.

North Midland maintains progress with £815,000

NORTH Midland Construction, civil engineers, building and public works contractors, reported a 48 per cent increase from £551,000 to £815,000 in pre-tax profits for 1989.

Sales advanced 52 per cent, from £14.54m to £22.14m. At the half year profits were more than doubled against a 67 per cent increase in sales.

After tax of £292,000 (£196,000) earnings per share were up from 14.2p to 20.9p.

A same-again final of 2p makes 4p against 3p – the board doubled the interim payment to 2p to reduce disparity.

British Fittings

British Fittings group plans to acquire Newlock for an initial sum of £1.5m satisfied by the issue of 735,294 ordinary shares. Newlock, distributes high pressure water products produced by Harben Systems, part of British Fittings.

Financing and asbestos-related costs hit T&N

By David Owen

SHARPLY increased financing charges and asbestos-related costs reduced full-year profits at T&N, the Manchester-based engineering and automotive component group whose products include Ferodo friction materials.

Pre-tax profits for 1989 fell 8 per cent from £91.3m to £84m – notwithstanding a 14 per cent increase in operating profit.

Turnover climbed 13 per cent to £1.19bn (£1.05bn). The bulk of this advance was accounted for by the North American and Continental businesses.

Asbestos-related costs amounted to £20.1m, against £10.7m in 1988. This comprised a previously announced £9m exceptional provision, partially offset by £2m of insurance recoveries, and £13.1m of ongoing costs.

Mr Colin Hope, chairman, said he expected these ongoing costs to approximate in future to 1 per cent of annual turnover. He was unable categorically to state that further asbestos-related provisions would not be needed.

This year's provision resulted from further information about the operation of a facility under which a number of companies share the costs of processing asbestos-related disease claims.

Financing charges climbed to £20.8m (£12m) on group borrowings up 49 per cent to £152.9m. At this level, gearing stands at 31 per cent. "We consider this a pretty prudent level of debt," Mr Hope said.

During the year, the group made acquisitions worth £37m and realised £14m from disposals.

Capital expenditure totalled £96m, up £35m on the previous year. Much of this was earmarked for automotive products.

The undisclosed cash payment received by the group in January from Hill Samuel, the merchant bank, has been included on the balance sheet in the goodwill written-off category. This related to settlement of a claim for costs T&N incurred as a result of Hill Samuel's conduct of the defence for AE, another engineering company, in a bitterly fought takeover battle.

This helped precipitate a 63 per cent increase in the group's reserves to £216.6m. Reserves were bolstered further by a £52.6m property revaluation surplus.

The net asset value per share was lifted by 32p to 183p.

Earnings per share fell to 24.07p (26.41p). The recommended final dividend, however, was raised to 7.25p (6.5p), making a total of 10.75p (9.6p).

● COMMENT

Assuming pre-tax profits of about £102m for the year ahead, the prospective p/e rating of less than 7 appears, at first glance, to be exceedingly attractive. The fact that the share price is at a mere 4 per cent premium to the group's net asset value per share does nothing to undermine such a view. However, for as long as any risk of further unexpected payments on the asbestos front remains, the shares must inevitably be expected to trade at a discount to the sector. On this basis, they look decidedly less cheap, notwithstanding the company's continuing success in raising margins and operating profit.

Storm in a test tube causes rumbles in the stomach

Andrew Baxter and Peter Marsh on a new ulcer drug which could hit Glaxo in the '90s

A NASTY outbreak of upset stomachs is causing rumblings in the $6bn-a-year world market for ulcer drugs, raising questions about the future development of one of the fastest-growing segments of the pharmaceutical industry.

The emissions of bile are more metaphorical than actual, but no less important in the long-term for millions of ulcer patients and the companies whose products are prescribed to them.

Between 15-20 per cent of the population in the developed world suffers an ulcer at some point during their lives.

Closely bound up with the perturbations is the likely progress over the next few years of Glaxo, Britain's biggest drugs company which today reports its half-year results for 1989-90.

The company is expected to unveil pre-tax profits for the six months to December 31 of about £550m, a healthy rise on the £460m achieved last time.

Glaxo has climbed rapidly in the past five years to become one of the world's top four drugs companies. That has been largely on the back of strong growth from Zantac, an ulcer product which is the best selling medication with 36 per cent of the world market.

At issue in the ulcer drug debate is the safety of Losec, the first of a new type of product for this therapy and which has been developed by Astra, Sweden's biggest medicines company.

The drug is a direct competitor to Zantac and, so some in the pharmaceutical industry believe, could have a big impact on Glaxo's fortunes in the early 1990s.

Zantac is highly important to Glaxo because the product, with sales in 1988-89 of £1.3bn, accounts for roughly half the company's revenues. Glaxo is much more heavily dependent on a single formulation than many other large drugs groups.

The UK company is well aware of the problem and in recent years has mounted an intense research effort to come up with new pharmaceuticals to replace Zantac as top-flight earners. Among these drugs is Zofran, a drug for treating nausea associated with cancer therapy. Glaxo announced this week that it had received permission to sell the product in the UK and France and approvals in other countries could follow shortly.

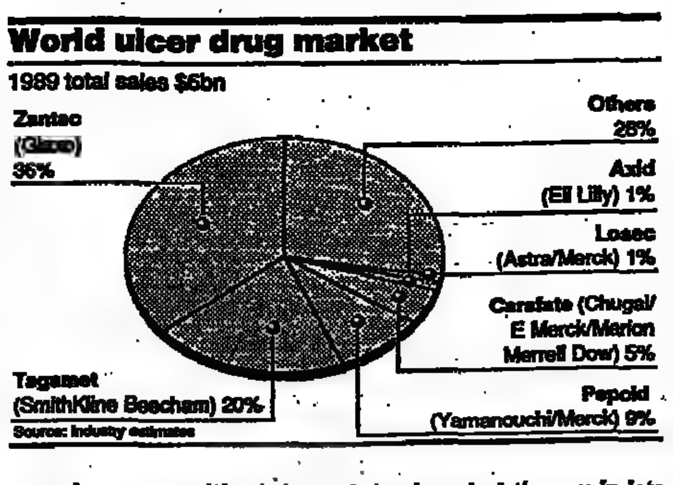
Zofran is one of a number of drugs in Glaxo's development pipeline which could, according to some analysts, have annual sales by the mid-1990s of several hundred million pounds a year.

In spite of the promise of such medications, some analysts are nervous about the extent to which they can build up sales by 1995, which is when Glaxo is expected to come under particular pressure as a result of patents on Zantac running out in some countries.

The patent expiry could lead to competitors bringing out cheap generic versions of the medication, undercutting the UK company's profits.

As a result of all these factors, anything that casts doubt on the safety of Losec would help Glaxo. The UK company appears to have recognised this, and in recent weeks has published its own scientific study which discusses in detail safety problems in ulcer drugs, with particular regard to Losec. The publication has caused a row with Astra, which has criticised the UK company's action as a "marketing ploy".

World ulcer drug market



Source: Industry estimates

Losec, first synthesised in 1979, acts by inhibiting the production of gastric acid from billions of tiny pumps on specialised stomach cells. By contrast Zantac and its arch-rival Tagamet, produced by SmithKline Beecham, the Anglo-Dutch drugs group with 20 per cent of the world market, are H2-receptor antagonists. These act against naturally-occurring histamine that would otherwise stimulate the cells to produce acids. Controlling the secretion of acid helps heal ulcers.

The arrival of the H2-type products in the late 1970s transformed treatment of serious ulcers, and many analysts think the arrival of Losec could change the market again.

Launched initially in 1988, Losec has already taken ulcer drug market shares of 20 per cent in the countries where it has been on sale longest. It is estimated to have 2.4 per cent of the US market – in spite being launched there only late last year.

In the US, the world's biggest drugs market, Losec is sold under an agreement with Astra by Merck, the world's largest pharmaceutical company.

By no means everyone in the drugs industry is agreed about the potential for Losec. Mr Hemant Shah, a New Jersey-based medicines analyst who runs his own research company, says Losec is unlikely over the next few years to account for more than about 5 per cent of the value of all ulcer drugs sold in the US. This figure is now about $2.5bn a year.

Others, however, think differently. Enskilda Securities, the Swedish stockbroker, believe Losec will become a "major blockbuster."

Behind this enthusiasm is partly Astra's agreement in the US with Merck, which has formidable marketing power and good credibility with doctors. Also, Astra can point to clinical evidence suggesting that Losec works better than the H2-type products, providing faster pain relief with longer-lasting dosages.

Losec's claimed superiority is seen most clearly in treatment of reflux oesophagitis, where problems with the valve between the stomach and oesophagus can lead to "reflux" of acid from the stomach, causing the lining of the oesophagus to become ulcerated. The disease is more common than the higher-profile, stress-related peptic and duodenal ulcers.

There are, however, lingering doubts about the safety of Losec. That has been due to the discovery in early testing of the drug of a cancer-like growth in a rat's stomach. This factor led the US Food and Drug Administration last year to authorise Losec for use in the US only for relatively severe types of ulcer conditions, although a wider authorisation for the drug in this country may well come within a few years.

Astra has contended for some time that in clinical studies side effects from the drug are low and in the same range as that found with the H2 products. But the controversy erupted again last month via the letters pages of the Lancet, the UK medical journal. In the February 17 issue, Glaxo reported the results of a trial on rats which showed that Losec may damage genetic material, so making the rodents more susceptible to cancer. Astra responded that the trial method used by Glaxo was scientifically unsound and that the results "therefore have no clinical consequence."

As a result of its findings, Glaxo announced last month that it had halted comparative clinical studies of Losec and Zantac. This produced a further blast from Astra. It said the UK company was "denying physicians further information on which to make rational prescribing decisions at a time when such studies have demonstrated that the efficacy of omeprazole (Losec) is superior to ranitidine (Zantac) and that the two agents are equally well-tolerated."

Glaxo has stuck to its guns, arguing that the publication of the test results were nothing to do with marketing and followed a serious scientific study. But others are not so sure. "This is marketing at its best," says Mr Paul Krikler, a pharmaceuticals analyst at Goldman Sachs, the US investment bank.

Dr Kah Foo, an analyst at Robert Fleming, the London broker, criticises some aspects of the Glaxo trial for being "experimental" and for omitting specific control procedures which are normally present in scientific studies. Nonetheless, he thinks the publication of the test results will have an effect by "throwing some doubt over the whole issue."

This is where the affair becomes more than a storm in a test tube and assumes wider significance. The point is not lost on Mr Ian Talmage, an Astra marketing director in charge of gastrointestinal business planning. "Any bad news in health care must be taken seriously. That requires that we must prove innocence rather than have the person making the claim prove guilt."

Astra is now working hard to regain confidence at general practice level, holding symposia for ulcer specialists and stepping up the flow of information to demonstrate Losec's safety.

March buys stockbroker as losses are cut to £0.4m

MARCH GROUP, the USM-quoted racing cars and engineering group which came to the brink of bankruptcy 18 months ago, yesterday disclosed that it had cut its taxable losses from £4.5m to £430,598 for the 1988-89 year.

Mr John Cowen, chairman, also revealed that March was diversifying into financial services via the acquisition of the private client stockbroking business of Cobbold Roach from the Elders Finance Group for £3m cash.

A hint that March might move into financial services as a way of lessening the group's dependence on volatile racing car engineering activities was provided as far back as last May following the decision to appoint to the board Mr Roger Young, who had a long background in the financial services industry.

Mr Cowen said yesterday that any future acquisitions were also likely to be made in the financial services sector rather than engineering.

The group also announced a one-for-two rights issue at 40p a share to raise £3.65m net. The issue, which is being fully underwritten by new joint brokers Laing and Cruickshank, represents no discount on the market price.

As a consequence, March expects little take-up from individual shareholders and that virtually the entire issue will go to institutions, who would then have "more than 50 per cent" of March, according to Mr Young.

The issue's proceeds will be used to redeem £1m in redeemable preference shares due next month, provide working capital for the race cars and engineering businesses and help fund the expansion of Cobbold Roach.

An extraordinary credit of £1.26m for the year to end-October 1989 left the group £969,524 in profit on the bottom line, compared with previous losses of £4.04m.

NEWS DIGEST

Clarke Nickolls slowdown

A SLOWDOWN in the second six months left profits of Clarke Nickolls & Coombs, the property investor and developer, just 6 per cent ahead for 1989 at £4.5m pre-tax.

At the six month stage profits were showing a 22 per cent rise at £3.05m.

Directors said the company was concentrating on producing income and had reduced its involvement in speculative development. The present policy was to concentrate on longer-term growth in asset values at the expense of lower short-term gains and higher interest holding costs.

They warned that until interest rates were lowered and buyers regained confidence, growth in profits would be adversely affected.

Property sales showed a fall of £1.46m to £8.49m but gross rental income rose by £565,000 to £2.57m. Net asset value was up by 30p at 120p per share.

From earnings of 15.25p (14.46p) the year's dividend is effectively lifted by 0.75p to 3p via a final of 2p.

Margins improve at Pochin's

An 11 per cent expansion in interim profits was yesterday reported by Pochin's, the Cheshire-based building and civil engineering contractor.

On turnover down some 8 per cent at £19.08m, the pre-tax figure was £1.63m (£1.46m). After tax of £571,000 (£512,000), earnings per share rose to 102p, up from 91.5p last time.

The interim dividend is doubled to 8p although this reflects a move to reduce disparity; the total paid for the last full year, excluding a special dividend, was 24p.

Small setback at Merivale Moore

Reflecting difficult trading conditions in the property sector, Merivale Moore reported a slight setback from £3.74m to £3.36m in pre-tax profits for the half-year to December 31. Turnover fell from £17.64m to £17.31m.

Net rental income rose from £1.24m to £2.04m and the total income was £8.63m (£7.25m), but interest charges were up from £2.45m to £3.87m. After tax of £1.17m (£1.24m) and minorities of £178,000 (£55,000) earnings per 5p share were down from 17.4p to 14.4p. The interim dividend is a same again 2.75p.

Fired Earth Tiles achieves £0.97m

Fired Earth Tiles, a retailer of high quality hand made tiles, returned pre-tax profits of £971,000 for 1989, a slight improvement on the forecast made when it came to market in November and some 30 per cent ahead of the previous year's £747,000.

Turnover expanded from £2.78m to £4.09m and earnings worked through at 12.15p (9.7p) after tax of £357,000 (£262,000). Shareholders are to receive a dividend of 2.25p.

Mr Nicholas Kneale, chairman, pointed out that the profits had been struck after writing off £200,000 start-up costs. He added that although 1990 would see an element of consolidation, the year had, nonetheless, started well.

Precious Metals assets up 23%

Precious Metals Trust reported a net asset value of 212.5p per share at the end of January 1990, compared with 172.5p a year earlier, an increase of 23 per cent; by March 5 however, it had eased to 208.7p.

Net revenue for the six months to January 31 slipped to £101,000 (£108,000), with the fall in interest receivable from £154,000 to £80,000 more or less cancelling out the rise in income from fixed asset investments from £141,000 to £219,000.

The price of gold increased by 11 per cent in the period, the directors said, in response to political and economic changes and to the uncertainties associated with them.

Kunick to seek main market listing

Kunick, the leisure and health-care company, has applied to move from the Unlisted Securities Market to the main market.

Kunick, valued at £113m, said that a listing would increase the marketability of the shares and enhance its profile and status.

The introduction of its shares onto the main market is being handled by Samuel Montagu. Dealings are expected to start on March 22.

Readymix jumps to I£3m

Dublin-based Readymix pushed up pre-tax profits to I£3.05m (£2.93m) in 1989. The advance from I£1.1m was achieved on turnover up 36 per cent from I£18.74m to I£25.52m.

After tax of I£381,000 (I£14,000) and an extraordinary debit of I£400,000 (I£100,000) earnings came through at 6.89p (2.84p). The proposed final dividend of 1.35p makes a total of 1.75p (1p) for the year.

Assets rise 9% at Merchants Trust

The net asset value of The Merchants Trust stood at 224.58p per share at January 31 1990 – a gain of 9 per cent on the figure of a year earlier.

Earnings per share for the year to end-January amounted to 8.89p, up from 6.85p last time, and a proposed final dividend of 2.15p lifts the total to 8p, a rise of 21.2 per cent.

Directors also forecast a first quarterly dividend of 2.25p and a total of 9p for the current year.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Abbott Mead Vick ......fin	4.8†	-	4	7.2	6
Allied Inc § ......fin	2.5	July 1	2.5	3.5	2.5
Beazer ......int	2.7☆	June 6	2.45	-	7.5
Brit Aerospace ......fin	14.6	June 4	13.2	22.7	20.6
BTR ......fin	8.3	May 24	6.7	15	12
Christies Intl ......fin	6	May 23	3.75*	8	4.75*
Clarke Nickolls ......fin	2	July 5	1.575*	3*	2.25*
Fired Earth ......fin	2.25	-	-	2.25	-
Hillsdown Hldgs ......fin	5.4†	July 2	4.6	7.2	6
Lambert Howarth ......fin	7	May 17	6	10	8.5
March Group § ......fin	nil	-	nil	nil	0.64
Merchants Trust ......fin	2.15	May 18	3.6	8	6.6
Merivale Moore ......int	2.75	-	2.75	-	10
North Midland ......fin	2	-	2	4	3
Pochin ......int	8	May 1	4	-	24‡
Readymix ......fin	1.35♣	-	1	1.75	1
SmithKline Beech ......fin	3.2	Apr 17	-	5.2	-
T&N ......fin	7.25☆	July 5	6.5	10.75	9.6
Trade Indemnity ......fin	1.22	May 15	0.87	1.9	1.4
Wickes ......fin	3	July 9	2.81	4	3.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ☆Scrip option available. ♣Irish currency. ‡Excludes special payment.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bellwinch, Close Bros, Coronation Syndicate, EFM Dragon Trust, European Leisure, Glaxo, Minorco, Tweefontein United Collieries, Wolseley, Zambia Copper Investments.

Finals- Associated British Ports, Associated-Henriques, BSA, Bredero Properties, Church, Clarke (T), Davies & Metcalfe, Delta, Dukeminster, Enterprise Oil, Ericsson (LM), Hall Engineering, Hewitt (J) (Fenton), Jacob (W & R), Jacobs (John I), Jones (A), Kleinwort Benson, Legal & General, Lex Service, Northern Engineering, Quotient, Rexnord Inc, Rolls-Royce, Spandex, Third Mile Investment, United Biscuits, Wolstenholme Rink, Wood (Arthur) (Longport).

FUTURE DATES

Interims-

Caird	Mar. 22
Parkside	Mar. 23

Finals-

Ayrshire Metal Products	Mar. 23
BNB Resources	Mar. 22
Bemrose	Mar. 22
Blackwood Hodge	Mar. 30
Exploura	Mar. 28
McLaughlin & Harvey	Mar. 23
Malaysia Mining	Mar. 27
Mowlem (John)	Apr. 6
New Guernsey Securities	Mar. 20
Tronoh Mines Malaysia	Mar. 23
Wembley	Mar. 29

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
1988							
4th qtr.	109.9	114.7	29.3	121.6	135.4	2,101	251.4
1989							
1st qtr.	109.7	116.5	31.1	121.3	135.4	[illegible]	238.6
2nd qtr.	109.5	118.5	32.8	122.6	135.7	1,824	232.4
3rd qtr.	111.1	120.9	35.5	121.5	134.7	1,742	220.3
4th qtr.	111.7	122.5	35.5	123.1	139.5	1,654	206.5
February	108.2	115.5	35.5	121.8	133.8	[illegible]	233.5
March	110.1	115.9	36.7	122.4	137.4	1,917	234.9
April	110.8	118.1	34.7	120.7	131.8	[illegible]	233.2
May	109.5	118.8	34.1	124.3	133.4	[illegible]	219.5
June	109.2	118.6	34.0	121.4	133.0	1,810	234.4
July	110.1	119.8	34.5	120.5	135.5	1,757	233.5
August	111.9	120.7	35.2	121.4	134.9	1,745	219.5
September	111.2	119.5	35.5	122.1	132.9	[illegible]	230.7
October	112.1	120.7	35.5	121.5	140.2	[illegible]	214.8
November	111.9	120.2	35.7	122.1	139.5	1,652	209.5
December	111.2	120.6	35.5	123.4	139.5	1,635	195.4
1990							
January				121.6	138.6	1,611	

OUTPUT- By market sector: consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Cnsmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1988							
2nd qtr	111.7	109.7	108.9	111.8	128.8	99.6	20.7
3rd qtr	114.2	113.7	108.5	114.9	135.1	99.9	19.5
4th qtr	114.2	115.1	108.3	115.9	134.2	98.7	21.2
1989							
1st qtr.	114.8	116.6	104.8	119.2	133.1	100.6	19.1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL- Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending £m	BS inflow £m	Cnsmer. credit* £m	Base rate %
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INFLATION- Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100).

	Earn-ings*	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Not seasonally adjusted. †Net changes in amounts outstanding, excluding bank loans.

TECHNOLOGY

Richard Donkin examines products which detect the presence of listening devices

The bug's bite loses its sting

David Tong looked at the eavesdropping device with the same mixture of repugnance and curiosity that an entomologist might display on discovering a fly in his soup at a posh restaurant.

"We don't make these things but we need to know how they work," he said. Tong manufactures and markets de-bugging devices, the black boxes employed to flush bugs out of boardrooms.

His company, Datong Electronics of Leeds, began life making components for amateur radio enthusiasts. It branched into de-bugging equipment about 10 years ago.

Datong's products are designed to detect bugging devices marketed by such companies as Lorraine Electronics of Walthamstow. "We make the poison and the antidote," said David Benn, the Lorraine chief who supplies corporate customers with bugs. The company also provides a de-bugging service.

While the use of small transmitters is illegal in the UK without a licence, there is no law prohibiting their sale or manufacture.

Lorraine and Datong are just two of a number of companies, some less scrupulous than others, feeding off the corporate paranoia about industrial espionage which just occasionally comes to the surface.

The last instance was on February 20, when Laing Properties announced that it had complained to the Takeover Panel about a listening device it had discovered in the office of a senior executive. Laing is subject to a hostile takeover bid by P&O Ferries and Chelsfield. P&O described the announcement as "wholly mischievous" and rejected any idea that it had planted the bug.

Previously the best documented case of bugging involved three men convicted in 1988 for placing a device in a biscuit tin outside the home of an executive of Comet, the Kingfisher (then Woolworth) subsidiary, shortly after Dixons lost a takeover bid for Woolworth.

The tap was discovered by telephone engineers when the biscuit tin filled with water and cut off the line. Network Security, a private investigation company, was called in to keep surveillance on the device.

Detectives from Network saw the phone tappers return to collect a tape from the tin. They tailed them by car from Northampton to Essex but did not count on the telephone tappers using a receiver to monitor the detectives' radio messages.

The next day the wife of one of the Network investigators was rung at home by a caller warning her husband to back off. The tappers had found the home addresses of the investigators by telephoning a friend in the Essex police who checked the car registration number on the police national computer. The officer was later traced and prosecuted.

Network Security is one of the few companies in the UK – Saladin Security is its main competitor – which provides a comprehensive de-bugging service to help executives keep bugs out of the boardroom.

Datong markets a black box called Ranger that will sniff out the less sophisticated transmitters – the sort supplied by Lorraine.

A basic transmitter, the sort of bug that has been on the market for about 10 years, is crude but effective. It is about the size of a matchbox or smaller and consists of a microphone, two transistors, four or five resistors, about half a dozen capacitors, a battery and a short wire antenna.

Lorraine sells variations installed in Sheaffer pens, Casio calculators, and MK Plug sockets.

Ranger, which costs about £3,000, can locate a working radio transmitter in a room by sending out a signal which Tong calls a "sonic label." Any active bug then transmits the sound back by radio.

The device has two radio receivers which tune continuously over a wide frequency range until they detect a transmission carrying the original signal. Using a series of audible clicks the system measures the time it takes the sound to come back from radio to the box, enabling the controller to home in on the bug.

Ranger is adequate for the simple devices which are probably most widely used in corporate bugging. But a new generation of bugs that can outwit the black box has also become commercially available, taking corporate surveillance into some of the most sophisticated areas of espionage.

Nick Vafiadis, technical director of Communications Audit, argues that black box devices can only detect about 35 per cent to 40 per cent of bugs in operation. He advocates a more comprehensive programme of checks, starting with one that uses a radio receiver with a spectrum analyser covering 10Khz to 10Ghz.

The team also uses a $35,000 high frequency non-linear junction detector called Superscout, marketed in the US. It is a commercial version of a piece of equipment which was a classified defence secret up to the early 1980s and developed originally to carry out bugging searches on foreign embassies.

It can detect a bug that is inactive by sending out a small pure radio signal – like a single note from a piano – with no harmonic content. Sensitive receptors listen for second and third harmonics.

The equipment employs the principle that if any electronics are illuminated with a pure signal they produce harmonics or overtones. Even a rusty nail will give off second harmonics, so operators concentrate particularly on any register of a third harmonic.

Once the bug check is out of the way the team brings in portable X-ray equipment to examine solid objects such as wood panelling.

The next stage is to employ a detection unit which looks at the infra-red region of the spectrum, between 700 nanometres and 1,300 nanometres, the band at which most infra-red communications operate.

While Communications Audit has yet to discover infra-red transmissions being used in commercial espionage, the equipment to carry it out is known to be available in London. Infra-red signals are frequently used to transmit data between the tops of buildings in the City of London, mainly because it is cheaper than using cables.

A way of using infra-red for evesdropping, also commercially available, is to direct a laser beam through a window. The window itself will pick up voice vibrations but these are usually distorted by traffic vibrations.

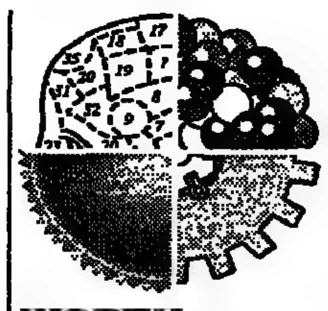
A beam passing through the window can latch on to a picture hanging on the wall or on to certain types of window blind. They act like a diaphragm refracting sound waves. The only problem for the spy is that the laser equipment must be directed straight on to the window for the signal to pass through.

The de-bugging team then moves on to probing individual telephone lines for taps, using cable tracing equipment to follow the cable combined with visual examination at all points where a bug could be installed.

A telephone tapping device is on the market for £450 which simply grips the telephone cable between crocodile clips, without connecting into or breaking the line. The device, marketed under the name Audiomon, claims to be undetectable by any electronic means.

It is difficult to judge just how many companies are using bugs or are employing other companies to do their dirty work. Lorraine claims that one in four of its current customers is a public limited company but says that few of its products are used for industrial espionage.

"It is not up to a company like ours to sit in moral judgment. We have the technology and manufacture the products," said Benn. "People frequently get off a plane at Heathrow, get a taxi and come round here, buy the equipment and leave. Frankly we don't give a stuff who they are."



WORTH WATCHING

Edited by Clive Cookson

Solid as a rock in troubled waters

CIVIL engineers constructing earthquake-resistant building foundations, dams and tunnels have long wanted a flexible and waterproof filling material that solidifies in water. A Japanese material described in today's issue of Nature may be an answer to their prayers.

Akihiro Moriyoshi and colleagues at Hokkaido University have made several varieties of the material, which they call Aquaphalt. It contains bitumen emulsion and cement, mixed with a polymer that absorbs 300 times its own volume of water. Once set, Aquaphalt resembles hard bitumen but has the valuable property of being ductile. It can stand the strain of a severe earthquake without breaking, unlike the backfill materials normally used for tunnels and dams. Aquaphalt is a candidate for use in the proposed Tokyo Bay Tunnel.

The researchers say that Aquaphalt could also be used as a foundation material for building on sandy soils in places prone to earthquakes. It would stiffen the soil, which is liable to liquefy when the earth vibrates, and cushion the buildings from the shock.

A booming trade in intellect

INTELLECTUAL property rights will be one of the most vexatious issues in world trade during the 1990s. And managing intellectual property – patents, copyright and trade marks – is becoming an important part of any corporate strategy.

The European Conference on The Profitable Exploitation of Technology, sponsored by Defence Technology Enterprises and organised by IBC Technical Services, will look at intellectual property both as an international trade issue and from the point of view of an individual company. Other issues to be covered include technology transfer, strategic alliances and bringing products to market. The conference will be in London on 27-28 March.

Pump overcomes uphill battle

UP-STREAM Pumping, a new technology for preventing leakage from pumps and other rotating equipment, may help the chemical and oil industries to meet ever more stringent controls on harmful emissions to the environment.

John Crane, based in Slough, west of London, has developed Up-Stream Pumping from an innovative dry gas seal. One of the two rings making up the seal has spiral grooves that create a cushion of gas to stop leakage. In Up-Stream Pumping the grooves scoop up a clean buffer liquid from a reservoir outside the seal and propel it upstream into the process liquid.

Unlike a conventional seal, the two faces do not come into contact in operation; they are always separated by a very thin layer of clean fluid which is replaced on every revolution of the pump shaft.

Crane expects Up-Stream Pumping to be particularly useful in chemical process plants, for example to prevent emissions of volatile organic compounds and to seal caustic, acidic or abrasive liquids.

Waste falls on hard times

ST Lawrence Cement, eastern Canada's biggest cement producer and a leader in developing technology for burning waste as a cement kiln fuel, is moving ahead with equipment testing at its plant near Montreal, writes Robert Gibbens.

St Lawrence will test equipment for six weeks in co-operation with local municipalities and under supervision of independent specialists. The wastes being burned include municipal rubbish and used oils.

By the autumn St Lawrence expects to have scientific data showing the degree to which the wastes were destroyed and assessment of any contaminants from the process. Temperatures in the kiln reach 1,800 deg C, allowing a more than ample margin for destroying toxic PCBs, the company says.

Fax presents a colourful story

A DESKTOP facsimile machine which produces images in full colour is to be launched in Japan this autumn by electronics manufacturer Sharp, writes Della Bradshaw.

The machine uses a printer with a thermal head and a ribbon containing layers of ink which is sensitive to heat. Depending on the heat applied to the ribbon by the print head, a different colour is produced on the image-sensitive paper.

The machine uses digital image processing and compression techniques. It transmits A4-sized images and is compatible with Group 3 facsimile machines.

No bounds for knowledge

THE SOVIET Paton Institute in Kiev, the largest materials research institute in the world, with 12,000 staff, signed a co-operative agreement yesterday with the Welding Institute of the UK, writes Lynton McLain. The immediate result will be the creation of teams to diagnose the causes of industrial disasters and failures and advise on remedial measures.

The Institutes want to broaden their technical knowledge and extend their influence. The Welding Institute will have access to technology at the Paton Institute, which hopes to be able to extend its interests and activities beyond the Soviet Union and eastern Europe.

Two areas of technology transfer likely to develop as a result of the agreement are laser welding and electron beam welding. The Paton Institute is the only organisation to have carried out electron beam welding in space. In Britain, the Government is keen for industry to exploit lasers and has funded the National Laser Centre, which will open this summer at the Welding Institute.

Contacts: Hokkaido University: Japan, 011 716 2111. IBC Technical Services: UK, 01 236 4080. John Crane: UK, 0753 73077. St Lawrence Cement: Canada, 514 340 1881. Sharp: Japan, 06 621 1221. Welding Institute: UK, 0223 891162.

LME prepares to rein in runaway lead market

By David Blackwell

THE LONDON Metal Exchange yesterday took the first steps towards cooling down the lead market, where the premium for cash lead over metal for delivery in three months has reached unprecedented levels.

At the close yesterday cash lead was £745 a tonne, compared with £508.50 a tonne for three-month metal – giving a premium of £236.50 a tonne, or almost 50 per cent.

Mr David King, chief executive of the LME, told ring trading members yesterday morning that the exchange had decided to call in the cards of lead traders in order to monitor their positions. The cards, showing positions at the close last night for settlement from March 19 to June 15, must be in noon today.

Mr King told members yesterday that the LME board viewed the size of the backwardation, or cash premium, "with serious concern." In considering what further action, if any, should be taken, the board would "have regard to the purposes for which positions are held."

The LME has taken similar action before when other base metals have suffered from supplies squeezes. If it decides to act after scrutinising the cards, the most likely outcome will be a limitation of the daily cash premium.

Only last month the LME removed temporary restrictions imposed on the zinc contract in December and on the nickel contract in February 1988.

Analysts believe the tightness in the lead market is genuine, and not the result of any attempt to corner the market.

"We are looking at a fairly tight market which, due to a series of supply disruptions, has found itself short of metal to deliver," said Mr John Harris, analyst with Rudolf Wolff, who expressed surprise that the LME had taken so long to act.

Last August Nuova Samim's 84-000 tonnes a year Porto Vesme plant in Sardinia was halted following a technical failure. It is now not expected to be back on stream until June. This closure alone has contributed to a sharp drawdown in stocks in LME warehouses, which totalled about 40,000 tonnes last August, but last week dwindled to 12,900 tonnes – the lowest level since January 1988.

Other production problems have followed – Britannia Refined Metals in Kent has had problems over the past couple of months, although it is now back in operation; the Red Dog lead and zinc mine in Alaska has been slower to start than was expected; Noranda has had trouble with its Belledune plant in Canada; and Cominco has closed the Sullivan mine in Canada, which was producing 58,000 to 95,000 tonnes of lead a year.

In addition, pressure is on the market from possible options declarations on March 21, and miners have gone on strike again in Peru.

"This is the reverse of the bear market of earlier this year," Mr Neil Buxton of Shearson Lehman Hutton said yesterday. "People are nervous that if they don't cover now, they will get left behind."

Turkish copper/zinc mine plan

By Kenneth Gooding, Mining Correspondent, in Toronto

METALL MINING, the quoted subsidiary of Metallgesellschaft of West Germany, is poised to give the go-ahead for a world-class zinc and copper mine in Turkey.

Mr Klaus Zeitler, president of Metall Mining, said yesterday he expected the mine, at Cayeli, about 8 km from the Black Sea and near the Soviet border, to be in production in 1992. MM would spend about US$80m on the venture.

Last year the company boosted its shareholding in the mine from 24.5 per cent to 49 per cent and is managing the project. MM's partners are Etibank, the state-owned industrial bank of Turkey, with 45 per cent, and Gama, a private Turkish engineering and construction group.

MM has already proven there is about 15m tonnes of ore containing 4.5 per cent copper and 7.5 per cent zinc at Cayeli. That would be enough to give the mine a life of 30 years when producing about 100,000 tonnes each of zinc and copper concentrate annually.

However, there was an additional 10m to 15m tonnes of possible and potential reserves, Mr Zeitler pointed out.

He said that Cayeli would be the first mine to be brought into production by MM, a Toronto-based company which Metallgesellschaft floated off in 1987. Metallgesellschaft retained 68 per cent of MM while 8 per cent is owned by Agip Miniere, the state-owned Italian group.

MM also expects later this year to give approval for a zinc and lead mine in Tunisia. The Bougrine project, in which MM has a 50 per cent and operating interest, is much smaller than Cayeli but the ore body is richer – 5m tonnes containing 17 per cent of the combined metals.

Mr Zeitler said a final feasibility study on Cayeli would be delivered this week by the Bechtel organisation. The final study on Bougrine was expected in June or July.

Sugar market 'likely to remain firm'

By David Blackwell

SUGAR PRICES are likely to maintain their recent firm trend even though the rise has been fuelled mainly by commission house buying on the New York market and not by any increase in physical offtake, according to C. Czarnikow, the London trade house.

As in the past, the commission houses will want to liquidate their positions but it would appear that on any major fall there is good buying potential from trade and end users, says Czarnikow's latest Sugar Review.

The markets feel the move above the 15 cents a lb level can be justified by the "ever tightening supply/demand scenario, particularly for the third and fourth quarters of the year." Weather problems have hit both Cuba, where rainfall has affected the harvest, and Thailand, where dry conditions have affected yields in the central region. The problems in Cuba, coupled with news of political difficulties, seem to have drawn speculative money into the New York market.

While availability in the short term on the world markets is sufficient, Czarnikow points out that if consumption is to continue its steady long-term upward trend, "then at current levels of carry-over stock, production growth will need to match it rather than slip behind."

It might have been expected that world prices by now would have led to a more definite response by way of expansion plans, says the review. But F.O. Licht, the West German sugar analyst, last week indicated that EC sugar beet plantings were likely to show a more modest increase than the markets had been expecting.

Bolivia ready to dig into mineral wealth

Foreign investors are looking seriously at mining opportunities, reports John Barham

THE SPANISH took Bolivia's silver and the Patinos stripped its tin, leaving little but poverty and beautiful architecture behind. That, anyway, is the cliché. But the fact is that much of Bolivia's extraordinary mineral wealth is still waiting to be discovered. And foreign investors are beginning to look seriously at mining opportunities in Bolivia for the first time in decades.

Mr Gonzalo Sanchez de Lozada, a former planning minister and a shareholder in Comsur, Bolivia's largest private mining company, says: "I think there could be a mining boom in Bolivia. Mining companies are like sheep – it takes time for them to come, but if one comes, the rest will follow."

A few companies have already taken the plunge. Among them are Britain's RTZ and the US's Battle Mountain. About half a dozen other companies are negotiating with Bolivian companies or have begun exploration on their own.

Recent foreign mining investments in Bolivia probably total about $40-60m, with at least $100m more in the pipeline. Mr Charles Bruce, general manager of Mintec, a La Paz consulting firm, says "This is a substantial sum of money for for a country no one would touch three years ago."

A decade ago, Bolivia produced $1bn-worth of minerals a year, nearly all of it tin. Annual sales now run at $270m. Mr Fernando Urquidi, a mining analyst at the US Embassy in La Paz, reckons that investments of the order of $2bn-3bn will probably be needed to raise output to 1980 levels by the year 2000. But Mr Bruce says output could be raised to $960m within five years. "There has been tremendous growth. Things are speeding up far more than we had expected."

Bolivia's virtually unmapped resources are thought to be impressive, but its turbulent recent history has meant that virtually no exploration has taken place for almost half a decade. It has an unparalleled variety of geology and possibly no more than 10 per cent of its resources have been developed. The country has been compared to Nevada of the 1930s. It is particularly rich in gold, silver and base metals.

The key to Bolivia's mining future probably lies with the Government and with Corporacion Minera de Bolivia (Comibol), the state mining corporation.

Comibol is a shadow of its former self. Sliding tin prices and radical economic restructuring in 1985 forced it to lay off 85 per cent of its employees. It shrunk from being a major tin supplier to a holding company whose assets are a few mines close to exhaustion and perhaps as many as 800 unexploited mines. Some properties have been taken over by co-operatives created by Comibol's 17,000 former employees, but the majority are ripe for development by outside investors.

Bolivia has returned to democracy, tamed inflation, settled its foreign debts and adopted stable, pro-business economic policies. But it still lacks sufficient foreign capital to unlock its mineral treasures. Which is why the Government wants to attract foreign investment to operate joint ventures with Comibol, in which the foreigners provide capital and technology and the Bolivians provide mines and labour. However, Comibol has no clear idea of what mines it owns, where they are or what they are worth. The company has begun taking an inventory to get a clear idea of its assets.

Confusion at Comibol is not the most serious obstacle to investment. Bolivia has been debating a number of changes in investment regulations for years. The key alteration needed is a softening of a constitutional ban on foreign landholdings within 50 km of the frontier. Foreigners could be allowed to lease, to operate or to lend to Bolivian-owned properties. Rich and rapidly accessible deposits are believed to lie beneath the Andes close to the frontier with Chile and Peru and along the western frontier with Brazil.

Some investors are undoubtedly deterred by Bolivia's chequered past – foreign assets were nationalised during previous political upheavals. Although the economy is stable, Bolivia is still a very poor country that remains heavily dependent on the narcotics trade.

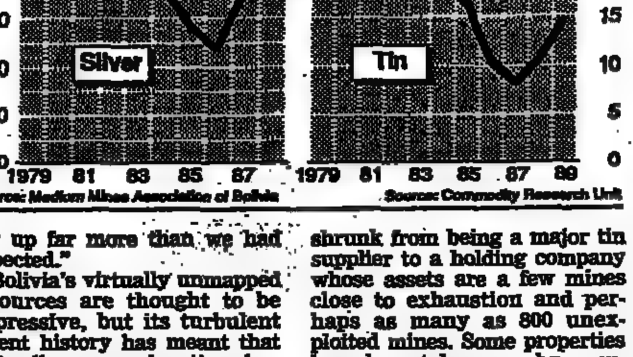
So far, the only major deals struck have been with privately-owned Bolivian companies. Inti Raymi, a gold mining company, has sold 30 per cent of its shares to Battle Mountain for $16.5m. Battle Mountain may invest a further $90m, making it Bolivia's largest recent foreign investor. RTZ has bought a 30 per cent share in Comsur, which has assets in Argentina and Peru as well as Bolivia. RTZ has also taken a 50 per cent share in an exploration joint venture with Comsur.

Two other important investments are under negotiation. Lithium Company (Lithco), signed in November a draft contract to produce lithium and other elements at the Salar de Uyuni salt flats in a $40m investment. But the contract has faced opposition in Congress and the media. Placer Dome of Canada is negotiating a $60m deal to exploit undeveloped silver, tin and zinc deposits at Comibol's prodigiously rich Bolivar mine.

Another half dozen companies are sizing up opportunities in Bolivia. They are: Gencor and Anglo American of South Africa, Canada's Cominco and Canyon Resources, both of the US, Australia's Broken Hill Proprietary and Niu Gini from New Guinea. Most of the companies are looking for gold, silver and base metals.

Although most investors' eyes are on virgin mines, tailings at some of Bolivia's centuries-old mines offer rich pickings. Bringing Bolivia's mining history full circle, Comsur and a miner's co-operative are already processing tailings at the legendary Potosi silver mine, which yielded over 3bn ounces of silver to the Spanish crown for 400 years.

Bolivia mine production



Source: Medium Mines Association of Bolivia. Source: Commodity Research Unit

Mexico aims to challenge the flower superpowers

Candace Siegle outlines plans to improve quality and boost export still further

MEXICO HAS always been a land of flowers. The Spanish Conquistadores commented on it when they saw flower-festooned boats plying the canals of Tenochtitlan, the metropolis which later became Mexico City.

Today, rolling hills in the states of Guerrero, Mexico, Puebla and Queretaro are bright with splashes of colour from the blossoming flower industry. Vendors carry those roses, carnations or gardenias to the city, where they are hawked to motorists at traffic signals or sold in bunches to housewives in middle-class neighbourhoods.

Until recently, Mexico's flowers were strictly for local consumption. But now that is changing. Mexico's young flower export industry experienced astonishing growth in the 1980s and supporters expect to see Mexico become a world competitor in the 1990s. According to Anapromex, the Mexican flower exporters' association, the industry was worth less than $1m in 1982. The association says cut flowers brought in $25m in 1989 and its goal is to double that by 1993.

Mr Gustavo Ruiz Kuri, president of Anapromex, feels this is not an unrealistic goal. He cites the industry's rapid growth as one positive factor, adding that the Mexican Government has targeted horticulture and floriculture for extra support in new programmes to push exports. A 1989 revision in Mexico's foreign investment law makes investing in Mexico more attractive and Mr Ruiz is actively looking for foreign concerns interested in pumping money into the industry, money needed to construct greenhouses and improve quality. Quality, he says, is the key to taking on top-exporters Colombia and Holland in the world market.

From less than $1m in 1982 cut flower exports have risen to $25m, and the industry hopes to double that by 1993

Mexico has 6,000 hectares of land under cultivation for flowers. Only 10 per cent of that area is used for export blooms. The rest, according to Anapromex, is "peasant agriculture" meant for local sale. The results of these growing methods, says Mr Ruiz, are flowers that do not last. Bouquets bought in local markets usually have a life span of only a few days. This is not acceptable quality in an industry where flowers may have to wait two weeks for shipment. Only 120 of Mexico's 7,000 growers cultivate for export because of the cost of putting up greenhouses and growing to international standards.

Currently 90 per cent of the harvest goes to the US and Canada. West Germany also imports a small number of Mexican flowers. At the Mexico City brokerage house of Hespirides, Mr Mauricio Garcia Sainz Wilson says that quality is the reason why Mexico has not made more of a dent in the European market. He blames problems with post harvest treatment of flowers for the fact that few Mexican blooms make it to Europe. This process is what makes flowers last after they have been picked, "and so far," says Mr. Garcia Sainz, "we haven't come up with the right solution to make flowers last long enough." Hesperides recently sent flower samples to Britain. Mr Garcia Sainz says that their quality was admired but exporting to the UK is out of the question until the post harvest treatment problem is solved.

This leaves North America as Mexico's principal buyer. The market for flowers in the US is so large that it absorbs nearly every stem offered. There, the powerful Colombians are the problem. Their grip on the market is so firm that according to Mr Garcia Sainz, Colombians are coming to Mexico seeking more flowers to fill their massive orders. It is more profitable to export to North America because prices are higher than in Europe, but Mr Garcia Sainz calls many US importers "very opportunistic" and says they take advantage of Mexico's desire to get a foothold in their huge market. Hespirides exports only to Canada.

Mr Garcia Sainz is optimistic, however, about the industry's future. "We're learning," he says, "and we're learning fast." Problems with post harvest treatment are being overcome in the processing of roses and carnations and many greenhouses are increasing their yields per hectare. Already the average Mexican hectare produces $200,000 worth of flowers – more than a hectare in Colombia. Mr Gustavo Ruiz of Anapromex expects the Government push on agro-exports to bring new participants into the industry. He also hopes that his recent visit to Holland will boost Dutch interest in Mexican flower exports.

WORLD COMMODITIES PRICES

MARKET REPORT

COFFEE PRICES reached 5-month highs in London yesterday amid concern about the situation in the Ivory Coast, the third biggest producer of the robusta variety traded in London. At £757 the May position closed £23 up on the day. Traders said fears of supply tightness were exacerbated by prospects of shipment delays from several other producing countries. On the LME copper prices were easier, but by midsession on Comex the price had risen by 3 cents to the critical 116 cents a lb resistance level. London cocoa futures reached 5½-month highs early on but finished lower on the day. The May contract, which had touched £750 a tonne, ended at £738 a tonne, down £3 as dealers said fears of Ivory Coast supply problems had faded. Gold ended near the day's high in quiet trading. After approaching the support level around $395 a troy ounce on Tuesday the price steadied $3.25 to $399.50 an ounce. Dealers said a comment from Mr Nicholas Brady, the US Treasury Secretary, that a US proposal for IMF gold sales to cover loan arrears was gaining support from other countries came to late to affect the London market, but some selling was prompted in New York.

Compiled from Reuter

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$15.70-5.80y	-0.15
Brent Blend	$18.60-8.65y	-.175
W.T.I. (1 pm est)	$20.46-0.48y	-0.21
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$210-212	
Gas Oil	159-160	+1
Heavy Fuel Oil	$83-85	-1
Naphtha	$172-173	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$399.50	+3.25
Silver (per troy oz)♣	510c	+5
Platinum (per troy oz)	$501.75	[illegible]
Palladium (per troy oz)	$131.00	+0.25
Aluminium (free market)	$1585	+30
Copper (US Producer)	126⅝-129	+3
Lead (US Producer)	50c	+1½
Nickel (free market)	420c	+10
Tin (Kuala Lumpur market)	17.04r	+0.18
Tin (New York)	298c	
Zinc (US Prime Western)	70¼c	
Cattle (live weight)†	110.34p	-0.20*
Sheep (dead weight)†	226.82p	+3.04*
Pigs (live weight)†	98.06p	-0.12*
London daily sugar (raw)	$382.6t	+9.2
London daily sugar (white)	$441.5t	+6.5
Tate and Lyle export price	£354.5	+5.0
Barley (English feed)	£107.25	
Maize (US No. 3 yellow)	£128.75	
Wheat (US Dark Northern)	£133t	
Rubber (Apr)♥	58.75p	-0.25
Rubber (May)♥	57.50p	-0.25
Rubber (KL RSS No 1 Apr)	228.5m	-1.5
Coconut oil (Philippines)§	$380t	-10
Palm Oil (Malaysian)§	$282.5	
Copra (Philippines)§	$262.5y	-3.5
Soyabeans (US)	£170	-3
Cotton "A" index	79.70c	+0.40
Wooltops (64s Super)	573p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Feb/Mar. t-Mar/Apr. v-Jan/Mar. w-Mar. z-Apr y-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
May	343.60	346.40	353.00 343.20
Aug	343.40	[illegible]	351.00 343.40
Oct	329.00	329.60	334.60 329.00
Dec	328.00	327.60	318.00
Mar	304.00	304.00	308.00 304.00
May	302.00	302.00	302.00
White	**Close**	**Previous**	**High/Low**
May	438.5	[illegible]	440.0 435.0
Aug	437.5	[illegible]	[illegible]
Oct	410.0	408.0	410.0 400.0
Mar	390.0	386.0	390.5 380.0
Aug	388.5		391.0 390.0

Turnover: Raw 6499 (3101) lots of 50 tonnes. White 1911 (680)

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
May	18.52	18.75	18.68 18.46
Jun	18.57	18.76	18.70 18.54
Jul	18.52	18.71	18.68 18.52
IPE Index	18.75	18.65	

Turnover: 9577 (6101)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High/Low
Apr	158.25	157.75	159.50 157.50
May	156.00	154.50	156.50 154.25
Jun	154.50	154.00	155.50 153.50
Jul	[illegible]	155.50	157.00 154.75
Aug	158.50	157.25	158.75 156.00
Sep	159.50	158.50	[illegible]
Oct	163.25	161.50	163.25 161.00
Dec	163.50	162.00	163.50 162.50

Turnover 6307 (9626) lots of 100 tonnes

WOOL

AWC floor price purchases remain between 30% and 40% and stocks continue to rise. However, there does seem to be an undercurrent of steadier trade demand at rather better prices in those markets where wool is available at below the equivalent floor price level. These and consumer markets are very far from buoyant. The beginnings of improvement, even if seasonal, can be discerned.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Mar	727	730	736 722
May	738	741	750 728
Jul	760	763	760 747
Sep	766	767	775 764
Dec	786	788	800 784
Mar	808	808	819 804
May	819	822	[illegible]

Turnover: 9172 (14719) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Mar 13 877.10 (853.96) 10 day average for Mar 14 862.80 (845.06)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Mar	746	709	747 722
May	757	734	768 740
Jul	718	711	737 714
Sep	727	719	744 722
Nov	740	733	755 738
Jan	755	742	770 746
Mar	770	757	770 768

Turnover: 6745 (5751) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Mar 13: Comp. daily 77.47 (75.16). 15 day average 75.13 (74.55)

POTATOES – BFE (£/tonne)

	Close	Previous	High/Low
Apr	164.0	165.5	166.5 162.0
May	[illegible]	196.0	197.0 192.5
Nov	99.0	99.0	97.0
Apr	140.0	144.0	140.0 137.0

Turnover 338 (285) lots of 40 tonnes.

SOYABEAN MEAL – BFE (£/tonne)

	Close	Previous	High/Low
Jun	123.50	124.50	123.50
Aug	[illegible]	124.50	123.50
Oct	126.50		126.50

Turnover 45 (19) lots of 20 tonnes.

FREIGHT FUTURES – BFE ($10/index point)

	Close	Previous	High/Low
Mar	1613	1622	1616 1612
Apr	1625	1626	1626 1620
Jul	1385	1390	1385 1381
Oct	1468	1470	
BFI	1627	1628	

Turnover 88 (253)

GRAINS – BFE (£/tonne)

Wheat	Close	Previous	High/Low
Mar	111.50	111.25	111.40 111.35
May	113.35	[illegible]	113.90 113.25
Jun	115.45	115.25	115.70 115.20
Sep	106.45	106.25	106.35
Nov	[illegible]	109.25	109.45 109.35
Barley	**Close**	**Previous**	**High/Low**
Mar	104.45	105.00	104.95 104.45
May	106.50	107.50	108.00 106.50
Sep	103.40	[illegible]	
Mar	113.05		113.00

Turnover: Wheat 291 (141), Barley 17 (59). Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Apr	120.7	120.5	120.8
Jun	120.5	120.0	119.8
Aug	115.8	[illegible]	115.8
Oct	119.5	118.5	

Turnover 75 (101) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 18,050 tonne
Cash	1567-8	1545-8	1560	1560-1		
3 months	[illegible]	1551-2	1575/1547	1563-4	1575-5	37,418 lots
Copper, Grade A (£ per tonne)						Ring turnover 39,800 tonne
Cash	1612-4	1618-20	1616/1614	1615-6		
3 months	1584-5	1597-8	1595/1580	1589-90	1591-2	67,798 lots
Lead (£ per tonne)						Ring turnover 15,600 tonne
Cash	740-50	735-45	765/750	755-7		
3 months	508-9	505-6	515/503	504-5	513-5	10,854 lots
Nickel ($ per tonne)						Ring turnover 2,258 tonne
Cash	9100-50	8900-60	9100/9050	9100-10		
3 months	8849-50	8680-700	8825/8775	8750-800	8825-50	7,147 lots
Tin ($ per tonne)						Ring turnover 585 tonne
Cash	6380-400	6395-405	6400/6395	6390-5		
3 months	6525-30	6520-5	6535/6500	6525-30	6530-40	5,110 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 21,050 tonne
Cash	1725-30	1695-700	1740	1735-40		
3 months	1584-5	1573-5	1605/1572	1588-90	1591-5	17,095 lots
Zinc ($ per tonne)						Ring turnover 375 tonne
Cash	1680-700	1620-40		1680-700		
March 30	1680-90	1600-20		1650-90		[illegible] lots

LME Closing £/$ rate: SPOT: [illegible] 3 months: 1.5820 6 months: 1.5580 9 months: 1.5372

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	399¼-399¾	247¾-248¼
Opening	398½-399	247½-248
Morning fix	398.80	247.579
Afternoon fix	399.75	248.102
Day's high	399½-400	
Day's low	398½-399	

Coins	$ price	£ equivalent
Mapleleaf	409-414	254-257
Britannia	409-414	254-257
US Eagle	409-414	254-257
Angel	409-414	254-257
Krugerrand	398-401	247-249
New Sov.	94-96	58¼-59¾
Old Sov.	94-96	58¼-59¾
Noble Plat	507.75-515.50	315.95-320.95

Silver fix	p/fine oz	US cts equiv
Spot	317.10	506.50
3 months	329.40	519.70
6 months	341.65	530.95
12 months	366.65	554.65

TRADED OPTIONS

Coffee	May	Jul	May	Jul
700	71	60	14	46
750	40	39	33	74
800	21		64	
[illegible]	May	Jul	May	Jul
700	50	69	13	19
750	28	41	36	41
800	9	23	72	73

Brent Crude	May	Jun	May	Jun
1850	39	57	36	47
1900	19	32	58	77
1950	7	17	5	104

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Mar	398.0	398.0	0	0
Apr	399.5	400.7	401.5	[illegible]
May	402.3	403.5	0	0
Jun	405.1	406.2	407.0	404.4
Aug	[illegible]	411.7	412.0	411.0
Oct	416.1	417.1	416.3	416.3
Dec	421.4	422.4	423.4	420.5
Feb	426.9	427.9	427.5	427.5
Apr	432.1	433.1	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Mar	508.1	505.9	509.5	506.5
Apr	509.9	507.8	0	0
May	513.8	511.8	514.8	512.0
Jul	522.1	520.1	523.0	520.0
Sep	530.5	528.5	531.5	527.5
Dec	542.5	540.4	543.5	541.0
Jan	546.2	544.0	0	0
Mar	554.7	552.4	554.3	554.0
May	563.0	560.7	0	0
Jul	571.5	569.2	572.0	572.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	125.00	119.00	125.70	120.00
Apr	120.30	115.15	121.00	116.60
May	117.40	112.70	118.75	113.10
Jun	114.90	110.30	115.75	111.10
Jul	113.20	108.80	114.20	109.50
Aug	111.20	107.00	108.00	107.90
Sep	109.20	105.20	109.20	108.00
Oct	107.70	104.00	105.40	105.40
Nov	106.50	102.85	0	0
Dec	104.90	101.80	105.50	102.60

INDICES

REUTERS (Base: September 18 1931 = 100)

Mar 14	Mar 13	mnth ago	yr ago
1933.7	1914.4	1784.6	2001.2

DOW JONES (Base: Dec. 31 1974 = 100)

	Mar 13	Mar 12	mnth ago	yr ago
Spot	132.92	133.10	[illegible]	138.80
Futures	133.98	133.96	130.42	141.88

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Mar	499.6	499.4	0	0
Apr	[illegible]	502.2	504.0	501.6
Jul	508.4	508.2	510.0	508.0
Oct	514.2	514.0	515.5	515.3
Jan	520.7	520.5	0	0
Apr	527.4	527.1	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Apr	20.15	20.22	20.37	20.01
May	20.36	20.39	20.58	20.20
Jun	20.51	20.51	20.67	20.37
Jul	20.53	20.46	20.66	20.37
Aug	20.50	20.41	20.57	20.33
Sep	20.50	20.34	20.55	20.28
Oct	20.44	20.29	20.49	20.26
Nov	20.41	20.26	20.46	20.24
Dec	20.40	20.24	20.41	20.17
Jan	20.36	20.22	20.40	20.26

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Apr	5360	5351	5425	5320
May	5245	5229	5290	5215
Jun	5215	5173	5250	5170
Jul	5235	5103	5275	5195
Aug	5315	5253	5385	5275
Sep	5455	5373	5460	5395
Nov	5610	5523	5610	5610
Dec	5720	5598	5665	5650
Jan	5685	5628	5700	5685

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1080	1113	1119	1075
May	1072	[illegible]	1114	1079
Jul	1083	1105	1120	1081
Sep	1093	1117	1135	1093
Dec	1116	1140	[illegible]	1118
Mar	1140	1155	1167	1147
May	1156	1178	1190	1162
Jul	1171	[illegible]	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	93.60	96.25	96.50	93.60
May	94.03	97.85	99.50	94.00
Jul	95.85	99.39	101.00	95.75
Sep	97.88	100.60	102.30	97.00
Dec	99.25	102.50	104.00	99.00
Mar	101.25	104.35	103.25	101.25
May	103.50	106.23	105.00	103.50
Jul	105.50	[illegible]	105.50	[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	15.54	15.73	15.90	15.53
Jul	15.33	15.44	15.68	15.32
Oct	14.78	14.83	[illegible]	14.78
Mar	13.86	13.84	14.02	13.86
May	13.72	13.74	0	0
Jul	13.62	13.70	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
May	71.55	72.03	72.43	71.55
Jul	71.83	72.34	72.70	71.88
Oct	66.75	66.80	67.00	66.70
Dec	65.85	65.50	65.85	65.25
Mar	66.10	66.22	0	0
May	66.58	66.70	0	0
Jul	66.95	66.82	67.20	67.20

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	191.00	190.00	191.00	189.55
May	189.65	190.65	191.00	189.10
Jul	187.80	188.45	188.95	187.10
Sep	183.80	184.50	185.00	183.50
Nov	[illegible]	177.00	177.10	176.50
Jan	171.50	171.25	171.50	171.50
Mar	171.50	171.25	171.50	171.50
May	171.50	171.25	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Mar	572/4	578/4	577/4	572/0
May	584/0	590/0	589/4	583/4
Jul	597/0	603/0	601/4	596/4
Aug	601/6	606/6	605/0	601/0
Sep	600/4	605/6	604/6	600/4
Nov	607/0	612/4	611/4	605/4
Jan	616/6	622/6	620/4	616/4
Mar	627/0	633/4	630/0	627/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Mar	21.53	21.91	21.80	21.45
May	21.77	22.07	21.97	21.68
Jul	21.88	22.15	21.97	21.75
Aug	21.67	21.91	21.75	21.60
Sep	21.50	21.62	21.55	21.40
Oct	21.20	21.30	21.25	21.20
Dec	21.11	21.20	21.25	21.05
Jan	21.01	21.11	21.05	21.00

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Mar	163.4	165.1	165.0	163.3
May	167.3	168.7	169.4	167.2
Jul	172.1	174.3	174.2	172.0
Aug	174.0	176.5	176.0	174.0
Sep	176.0	178.5	178.1	175.8
Oct	177.3	180.0	179.8	177.2
Dec	181.1	183.7	183.2	181.0
Jan	183.0	185.4	184.5	183.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	243/6	243/6	244/2	242/2
May	250/6	251/4	251/4	249/4
Jul	255/2	256/4	256/0	254/2
Sep	253/4	[illegible]	254/6	252/4
Dec	252/6	258/0	254/6	252/0
Mar	258/4	261/4	259/2	258/0
May	260/4	264/0	262/0	260/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	381/0	381/0	381/4	378/0
May	351/0	348/6	351/0	347/2
Jul	339/4	337/2	340/0	336/0
Sep	346/4	344/2	347/0	343/6
Dec	359/0	356/2	359/0	355/6
Mar	367/0	365/4	367/0	363/6

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Apr	77.62	78.12	78.27	77.42
Jun	72.37	72.82	73.02	72.32
Aug	72.42	72.87	73.00	72.32
Oct	73.85	74.35	74.52	73.75
Dec	74.30	74.72	74.75	74.20
Feb	74.45	74.85	74.95	74.45
Apr	74.40	74.75	75.00	74.40

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Apr	52.27	52.82	53.17	52.22
Jun	56.35	56.57	56.80	56.25
Jul	55.90	55.82	56.10	55.52
Aug	53.50	53.55	53.75	53.30
Oct	47.87	47.85	48.05	47.75
Dec	48.35	48.35	48.50	48.25
Feb	48.05	47.95	48.05	47.80
Apr	45.90	45.90	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Mar	50.65	52.45	52.65	50.65
May	51.27	52.95	53.15	51.20
Jul	51.95	53.07	53.60	51.80
Aug	50.07	51.40	51.65	49.95
Feb	54.86	56.20	56.30	54.56
Mar	56.40	57.80	0	56.40

LONDON STOCK EXCHANGE

Trading influenced by company news

INTEREST by US fund managers, together with good results from some leading UK companies, carried the UK stock market through another steady trading session yesterday. The advance was selective, however, with the gain in the Footsie only 13 points at best, and ran into the ground in late dealings after SmithKline Beecham disappointed the market by disclosing merger cost provisions substantially greater than expected.

The session opened cautiously on the overnight news of a further setback in Tokyo and a modest dip on Wall Street. But London quickly turned higher as it became known that Batterymarch, the Boston-based computerised fund management group, was indicating buy offers on a range of UK blue chips, including Sears, Storehouse, Boots and other well-known names.

Account Dealing Dates			
*First Dealings:	Feb 26	Mar 12	Mar 26
Option Declarations:	Mar 8	Mar 22	Apr 5
Last Dealings:	Mar 9	Mar 23	Apr 6
Account Day:	Mar 19	Apr 2	Apr 17

*New time dealings may take place from 9.00 am two business days earlier

Although Batterymarch offers do not indicate prices and are, therefore, not necessarily translated into actual deals, the UK market made good progress, led for a while by the Futures where the FT-SE contract extended its premium from an initial 3 points to around 10.

Good results from British Aerospace gave a further impetus to the equity market, as did the news that MCA of California is to buy Geffen Records, dispelling the belief in London that Thorn EMI intended to do so. Thorn advanced strongly as analysts took the view that Geffen would have been an expensive purchase for the UK electronics and leisure group.

The Footsie Index touched 2,238.3 at best before cooling off as Wall Street opened uncertainly and London's pharmaceutical analysts returned from the SmithKline Beecham meeting with mixed views. Shares in the recently-merged pharmaceutical group fell by about 5.6 per cent, but some analysts maintained that this might prove to be a considerable over-reaction.

The market faded away in the last hour of trading to show a final reading on the FT-SE Index of 2,226.1, for a net gain of only 1.6 points. Many senior staff at City dealing firms and institutions were heading for Cheltenham where the famous Gold Cup horse race takes place today.

Seaq volume of 376.1m shares compared with 317.6m on Tuesday. This week's trend towards large share deals continued, with Hanson trading heavily as a leading UK securities house apparently sold on a sizeable block of stock.

At Panmure Gordon, the London broker, Mr Nigel Little commented that the recent trading in large blocks of blue chip stocks appeared to indicate a re-shuffling of institutional portfolios. "There has been a decrease in the frequency of deals by the institutions which has been more than offset by an increase in their size," he added.

Heavy deals in Hanson

Heavy trade was recorded in Hanson as the shares slipped against the trend of the wider market to close 4 down at 229½p. The Seaq ticker registered several large deals, including one of almost 7m shares, as volume reached 20m.

Much of the trade was conducted by Hoare Govett, and marketmakers elsewhere thought that the broker was conducting institutional sell orders. Some traders believed the price weakness was related to the weaker trend of other leading conglomerates and to the effects of profit figures from BTR.

Others suspected that some former holders of the 10 per cent convertible unsecured loan stock were now awash with ordinary shares. More than 92 per cent of the loan stock, worth £965m, was converted on February 28. It is also possible that the shares could have been sold by former holders of Hanson's convertible preference shares, 97 per cent of which, worth £86m, were also converted last month. As one marketmaker put it: "There's a lot of stock with holders who don't want it any more."

BAe revival

British Aerospace revived sharply from recent weakness to close 20 up at 605p. Turnover at 3.8m shares was high by recent standards. The group's full-year profits, at £333m, were well above market forecasts and 28 per cent up on 1988.

Much of the day's trade was done early in the session following publication of the results. Thereafter interest slowed, although a flurry of buying did develop after a positive presentation to institutional investors by Hoare Govett, BAe's brokers. Hoare predicted 1990 profits of £285m after allowing for strike costs of £45m.

"These are good results with a strong balance sheet at the end of the year," said Mr Pete Deighton at County Natwest. He said there was "little likelihood of BAe paying more money for Rover; it won't pay compensation to the rest of its Airbus partners as a result of the UK strike; and the the European Fighter project is likely to continue. All in all, a bright outlook." County Natwest predicted 1990 profits of £340m.

Mr Clive Forestier-Walker of Kitcat & Aitken forecast a similar figure, but added: "These are good results but 1990 will be a particularly testing year given uncertainty over future defence projects."

Hillsdown weaken

Hillsdown fell after revealing that its 1989 profits had been boosted by an unexpected pensions holiday, but the fall was cushioned as the company stepped into the market and bought its own shares.

Hillsdown shares dropped when it emerged that the 30 per cent rise in profits to £195.6m only matched expectations because of a surprise reduction in pension contributions.

The impact of the recent rise in interest rates on Hillsdown's non-food divisions was a further source of concern. As a result, many brokers lowered their profit estimates for 1990. County NatWest cut its forecast to £245m from £250m, while Kitcat & Aitken lowered its to £238m from £250m.

However, Hillsdown staged a partial recovery in busy trading as it bought 500,000 shares at 247p. Hillsdown said its purchases had been at a price which was earnings positive and because market conditions were suitable. Further purchases were not ruled out. Hillsdown closed 7 off at 246p, after 241p, on a turnover of 8.5m.

Merger costs

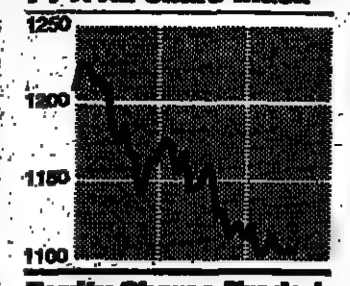
Smithkline Beecham recorded the sharpest fall of the day among FT-SE 100 stocks after an analysts' meeting described by one of its participants as "unconvincing." The shares fell 30 to 500p on exceptionally large volume for the stock of 5.1m shares.

Dealers said the market was also disappointed at the £500m provision against restructuring. The company's components, Smithkline Beckman and Beecham, merged last summer. Analysts also noted that, largely as a result of a write-off against goodwill, shareholder funds were negative. "This is a psychological matter that simply affects sentiment," said Mr Ian White of Kleinwort Benson. He remained positive on the stock in the longer term.

Several analysts also felt the decline was overdone. Some blamed reports of downgradings from one large securities house, which they said was "unjustified."

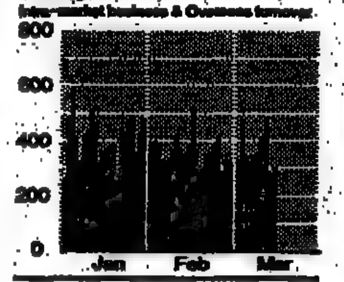
Two analysts added that fund managers were confused by the results. There was a question mark, for example, over whether the high charge for restructuring would be reflected in a correspondingly greater cost savings in the future.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business & Overseas turnover



British Gas made early progress to touch 217p, ahead of a presentation at Nomura, the Japanese securities house, but later slipped back to close unaltered on the day at 214p.

BP, responding to reports that the group was about to announce more cost-cutting exercises and job losses under its "Project 1990," edged up 2 to 333p. Shell rose 3 to 462p.

There was plenty of interest in second line oils. Aviva Petroleum, a weak market since news that the chairman had reduced his stake in the group, advanced 4¾ to 39¾p after analysts were said to have been increasing their asset values for the company. Current asset values for the group were said by one specialist to be "ultra conservative."

Profit-taking weakened BTR as the company reported profits below market expectations. The shares had a good run ahead of the figures but the 32 per cent jump in 1989 profits to £1.08bn reported by the company failed to excite the market and the shares fell 8 to 414p on turnover of 4m shares.

Mr Robert Morton at BZW said: "These are good figures but there is nothing on plans for BTR's US floatation. They are now out of the way and there is unlikely to be further news in the short-term to keep interest going." BZW predicted 1990 profits of £1.225bn and £1.375bn in 1991.

Christies International gained 4 to 338p after reporting a 58 per cent rise in annual profits to £66.9m. Mr Mark Shepperd at UBS Phillips & Drew said: "It will be more difficult for the company to achieve a similar level of growth in 1990, although the long term trend is still good."

Beazer rose 5 to 158p in response to first-half profits revealing a 16 per cent rise to £63m. The company hinted it was considering floating off part of its US operations.

Rolls- Royce were wanted ahead of today's full-year figures and the shares added 6 at 181p on turnover of 1.2m.

Simon Engineering recovered some of the previous day's fall, closing 4 up at 345p. BZW has upgraded its profit forecasts and now expects 1990 profits to be £48.5m and the following year £55m.

Smith Industries hardened 3 to 248p in good two way trade on vague talk of a stake-building exercise. T & N closed a penny lower at 191p following a fall of 8 per cent in full-year profits to £84m. "These figures are disappointing and puzzling. The reasons for the fall are not exactly clear," said Mr Sandy Morris at County NatWest.

Air traffic statistics gave a fillip to British Airways' shares, which rose 4 to 203p of good volume of 2.7m shares. BA's passenger load factor last month was 67 per cent, the best achieved in a February. Mr Dan White at County NatWest WoodMac said they were expected to be good, but they were "particularly good given the economic slowdown." Dealers noted buying from both the US and UK.

A. B. Ports firmed 3 to 582p ahead of final figures today.

Merchant banks performed well, led by S. G. Warburg, which rose 6 to 460p in the wake of a profits upgrading by BZW. The latter lifted its forecast of 1990 pre-tax profits by £20m from £170m to £190m, saying Warburg's equities and corporate finance departments have performed better than expected in the last quarter.

Kleinwort Benson, reporting preliminary figures today, added 4 at 410p; profits of around £70m have been pencilled in by most analysts. Midland Bank were 4½ firmer at 337½p but other leading high street banks were generally easier.

Lloyds Abbey made good progress in life assurances, the shares adding 8 at 316p. Turnover was a poor 554,000 shares. Prudential put on 2½ to198p on 1.2m while Legal & General, reporting annual results today, held at 382p.

Dealers said activity in the composites was confined to switching business. General Accident were 7 firmer at 1017p and Sun Alliance put on 3 to 294p. In brokers, Sedgwick featured with a 4 gain to 264p.

Vague talk of Japanese stakebuilding in Laura Ashley, denied by the company, pushed the shares 7 better at one point. But they weakened by the close to 57p, still an improvement on the day of 4.

A number of the leading building stocks moved ahead. George Wimpey, after the recent figures, added 6 at 242p, Tarmac put on 5 to 220p and Redland hardened 3 to 548p. Phoenix Timber held at 104p as Mercurius Gruppen increased its stake in the group to 23.9 per cent.

Unigate gained 7 to 269p on 1.2m on speculation that Mountleigh, the property group, may be considering a bid. But most analysts were surprised at the suggestions and considered such an offer highly unlikely. Mountleigh added 2 to 135p. Berisford eased 3 to 145p on 2.6m as the market waited for further news on the talks the company is holding which could lead to a bid. There was also suggestions that Mr Larry Goodman, the Irish businessman, had bought a modest amount of stock. A.B. Foods eased a penny to 392p on talk that it had been one of the stocks bought by Batterymarch.

Thorn EMI staged a strong recovery, closing 20 higher at 714p, after confirmation of recent hints in the market that Geffen Records might be taken over by a US company. The predator turned out to be MCA. Thorn have been depressed over the past month or so by stories that the group was about to raise money in the stock market to help fund the acquisition of Geffen.

Cable & Wireless rose 6 more to 535p, still boosted by the recent profits upgradings which have reflected the sale of the 20 per cent stake in Hong Kong Telecom to Citic.

Pressac continued to reflect takeover speculation, rising 9 more to 95p. But Alphameric slumped late in the session with the shares quoted at 5p to 10p, compared with an official closing level of 22p, after a shock announcement that the company "is experiencing a period of substantial losses," and is in an "unsustainable financial position." For the year to end-March 1990 a loss of £11m is expected, Alphameric said. The group also unveiled a rights issue of 80.8m shares at 5p a share, on terms of 18 new shares for every five held.

Rank Organisation climbed 13 to 767p following a positive statement at the annual meeting. The company said that leisure and entertainment remained among the fastest growing industries in the world, with spending forecast to grow at nearly twice the rate of GDP growth in the UK and US.

Water stocks extended Tuesday's firmer trend but turnover in the sector remained very low. The Water Package rose £30 to £1586 while the best performance in the water stocks came from Southern Water, 7 higher at 146p. North West and Wessex added 4 apiece at 1547p and 174p respectively. Thames Water edged up 3 to 152p.

A late decline in Sovereign Oil & Gas reflected the placing ofthe remainder of the stake held by Anglo United, which last year won control of the Coalite Group. The stake, some 3m shares, or roughly 5 per cent of Sovereign, was said by dealers to have been placed at 175p a share by a leading UK securities houses. Sovereign Oil & Gas shares settled 3½ down at 167p.

In an otherwise quiet packaging and paper sector, Bowater stood out with a steady rise of 8 to 459p as dealers took positions ahead of the annual figures on March 28th.

Steady buying ahead of finals today from Glaxo left the shares 6 better at 735p.

■ Other Market statistics, including the FT-Actuaries share index, Page 24

NEW HIGHS AND LOWS FOR 1989/90

NEW HIGHS (11).
AMERICANS (1) CANADIANS (2) BUILDINGS (1) ELECTRICALS (1) ENGINEERING (1) FOODS (1) INDUSTRIALS (2) Christies Int., Jardine Strategic, Technology Project Service, TRANSPORT (1).
NEW LOWS (88).
FOREIGN BONDS (1) CANADIANS (1) BANKS (3) BREWERS (2) BUILDINGS (4) CHEMICALS (1) STORES (6) ELECTRICALS (7) ENGINEERING (5) FOODS (4) HOTELS (2) INDUSTRIALS (9) ASD, Aaronson Bros., Bluebird Toys, Hawthorn Leslie, Maxiprint, Unigroup, West Inds., Whitecroft, Williams (John), LEISURE (3) MOTORS (1) NEWSPAPERS (1) PAPERS (3) PROPERTY (15) SHOES (1) TEXTILES (1) TOBACCOS (1) TRUSTS (6) OILS (3) PLANTATIONS (1) THIRD MARKET (1).

FINANCIAL TIMES STOCK INDICES

	Mar 14	Mar 13	Mar 12	Mar 9	Mar 8	Year Ago	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ordinary Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ord. Div. Yield; Earning Yld % (full); P/E Ratio (Net); SEAQ Bargains (5pm); Equity Turnover (£m); Equity Bargains; Shares Traded (mil): [illegible]

Ordinary Share Index, Hourly changes: [illegible]

FT-SE, Hourly changes: [illegible]

GILT EDGED ACTIVITY: [illegible]

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
Blue Circle	276	222	+2	GKN	108	386	+1	RTZ	1,100	536	+1	Thames Water	565	152	+3
Boots	1,400	282	+3	Guinness	630	858	+4	Racal	2,200	211½	+1	THORN EMI	1,100	714	+20
Brit. & Comm.	[illegible]	67	+3	Hammerson "A"	7	681	+2	Racal Telecom	84	372		Trafalgar House	1,035	316	−3
Brit. Aerospace	3,800	605	+20	Hanson	20,000	229½	−4	Rank Org.	446	767	+13	Trusthouse Forte	1,200	250	+1
British Airways	2,700	203	+4	Hanson Warrants	172	66	−1½	Reckitt & Colman	56	1117	+9	Ultramar	957	371	+6
British Gas	3,600	214		Harrisons Cros.	1,200	151	+3	Redland	627	548	+3	Unigate	1,200	269	+7
British Land	25	336	+1	Hawker Sidd.	108	622	+4	Reed Intl.	1,400	391	+1	Unilever	1,400	659	+1
BP	3,400	333	+2	Hillsdown	8,500	246	−7	Reuters	84	1052	−4	United Biscuits	633	315	−4
British Steel	2,200	138	+1½	IMI	289	321	+3	Rolls Royce	1,200	181	+6	Utd. Newspapers	78	348	
British Telecom	2,700	271½	−1	ICI	1,000	1102	+1	Rothmans	79	656	+6	Wellcome	185	606	−3
Bunzl	4,800	104	+1	Inchcape	187	264	+3	Ryl Bk Scotland	822	178	−2	Whitbread "A"	198	372	−2
Burmah Oil	547	601	+2	Kingfisher	315	279	−1	Royal Insurance	912	468	+1	Williams Hldgs.	315	349	−1
Burton	2,500	162	−2	Ladbroke	1,400	284	+6	STC	378	380	+6	Willis Faber	190	295	−1
Cable & Wire.	1,500	535	+6	Land Securities	1,100	482	−1	Saatchi	308	142	−1	Wimpey	341	242	+6
Cadburys	950	322½	+3½	Laporte	45	482	+9	Sainsbury	273	267	+1				
Calor Group	147	286	−11	Legal & General	885	382		Scottish & New.	543	393					
Carlton Comms.	207	722	+6	Lloyds Abbey	554	316	+8	Sears	1,080	89½	+½				
Coats Viyella	592	133	+1	Lloyds Bank	1,700	281	−1	Sedgwick	508	264	+4				

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

1989/90 High	1989/90 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

1989/90 High	1989/90 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS—Contd

CANADIANS

1989/90 High	1989/90 Low	Stock	Price	+ or −	Div Gross	C'vr	Y'ld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

APPOINTMENTS

British Gas managing directors

■ BRITISH GAS has appointed two new managing directors: Mr Howard W. Dalton, who becomes managing director, exploration and production; and Mr George H. Langshaw, managing director, global gas. Mr Langshaw's appointment takes effect on April 1 and Mr Dalton's from June 1. Both will serve on the company's group executive.

Mr Dalton's responsibilities will encompass the company's oil and gas interests worldwide. He succeeds Mr Cedric Brown, now managing director, regional services.

Mr Langshaw will be responsible for the new business unit created to help British Gas expand from its core UK business and develop into gas-related activities across the world.

Mr Dalton has been with Amoco Production Company for 30 years. He will move to London from Cairo where he is president and general manager of Amoco Egypt Oil Company.

Mr Langshaw was chairman of the Wales region.

■ Mr David Steyn, formerly a director of Lazard Investors, has been appointed managing director of YASUDA-PAINEWEBBER, a joint venture established by the Yasuda Mutual Life Insurance Co and Painewebber Inc to provide asset management and financial advisory services to clients around the world.

■ PROVINCIAL BANK has appointed Mr Ray Wood as a director.

■ Mr Bob Chappell and Mr Ted Athanassiades have been appointed to the board of METLIFE (UK). They are both executive vice presidents of the parent company, Metropolitan Life Insurance Company of New York.

■ ALBANY LIFE ASSURANCE CO has promoted Mr Derek Dean, information technology director, to the main board.

■ Mr Peter B.M. Lim has been made head of group asset and liability management at STANDARD CHARTERED BANK in London. He was group risk manager.

■ CREDITO ITALIANO INTERNATIONAL has appointed Dr Maurizio Romiti, direttore centrale of Mediobanca, as a director following Mediobanca's acquisition of a 14.9 per cent stake in CII.

■ RICHARD BURBIDGE, an Oswestry-based timber products manufacturer, has appointed Mr David Probert as a non-executive director. He is chairman and managing director of W. Canning.

■ Ms Maundy Todd has been appointed director of the HOLIDAY CARE SERVICE, a national charity which advises disabled holiday-makers.

■ Mr Gordon Williams has been appointed a director of HUNTING. He is head of the aviation division, the principal subsidiary of which is Field Aviation.

■ GORDON, WATTS & CO, has appointed Mr John E.A. Mocatta as chairman following the resignation of Mr Nicholas R. Adlam. Mr Brian Houghton becomes chief executive.

■ CROWN FINANCIAL MANAGEMENT has appointed Mr Murray Allan as executive manager pensions and marketing. He was with Confederation Life.

■ Mr Subash Gupta, Air India's director of finance, has been appointed deputy chairman of AIRLINE MUTUAL INSURANCE.

■ Mr Tony Dwyer has been promoted to sales and technical director at AIRSTREAM (NORTH-WEST). He was technical manager.

■ STORMSEAL (uPVC) WINDOW CO has appointed Mr Michael Jones as group financial director. He was with Coopers & Lybrand Deloitte.

■ ISTEL FINANACIAL SERVICES has appointed Mr Richard Seymour as managing director of the new Istel point Of Sale Services division. He was with Apricot computers.

■ BRITISH PENS, part of the Rical Group, has appointed Mr Bryan Percival as production director. He held a similar post at Staveley.

■ PHILIPS has appointed Mr John Hawkins as managing director of its business systems company. He was sales and marketing director.

■ LAZARD BROTHERS & CO has appointed Mr William Gridley as a director.

ACCESS TECHNOLOGY, Marlow, has appointed Mr Mike Winn as European general manager and as managing director. He was managing director of Apricot Financial Systems and a main board director of Apricot Computers.

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

BANKS, HP & LEASING

1989/90 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
*303	216	ANZ SA1	243	–1	44c	1.4	8.2	8.7
195	134	Abbey National 10p.	187xd	–1	8.5	q3.2	6.1	6.8
*282	120½	Allied Irish Ord.	260	+3	‡Q68%	3.3	3.1	13.4
£13½	£11½	Algemene Fl.10	£13⅛	+⅛	Q28%	2.0	6.8	7.3
*85	61	Anglo Irish	82	+7	Q18.7%	2.7	5.4	11.2
81	57	Ansbacher (H.) 1p.	76xd	.....	2.5	♦	4.4	♦
£72¼	£38½	Bancaire Cie Fr100.	£59¼	–¼	‡Q12½%	–	2.2	–
£46¾	£35½	Banco Bilbao Viz.	£37½	–½	Q35.7%	2.0	3.6	13.7
£33	£25½	Banco de Santander	£26½	.....	Q25%	2.4	3.9	5.8
*286	169	Bank Ireland IrE1	260	+3	‡Q12.5%	3.2	4.5	8.9
£19½	£17½	Bank Leumi	£19½	+1½	–	–	–	–
350	320	Bank Leumi (U.K.)	345	.....	†13.5	–	5.2	–
125	88	Bank Scotland	116	+1	†3.8	3.6	4.4	8.4
111¼	91½	Do. 9¼ pc Irrd Pf.	92¼	+½	9¼%	–	13.4	–
*67	49	Bank of Wales	52	.....	2.8	1.6	7.2	10.9
*588	404	Barclays £1	567xd	+1	27.4	q3.6	6.4	5.6
31	18	Benchmark 20p.	18	–1	1.63	1.0	12.0	10.3
363	285	Brown Shipley £1	313	.....	†10.5	–	4.5	–
455	325	Cater Allen £1	418	.....	23.5	–	7.6	–
259	149	Chancery	152	.....	†8.0	2.8	7.0	6.7
£23¼	£14½	Commerzbk DM10	£21¼	.....	Q18%	–	3.1	–
*£29	£22½	C'hgn.Hbk.Kr100	£25¼	–⅞	Q15%	–	5.7	–
£16⅞	£10	Dai Ichi KBk Y50	£10¼	+¼	†Q16%	8.8	0.3	36.6
*£314¼	£156¼	Deutsche Bk DM50	£280¼	+13	Q24%	–	1.5	–
£22¼	£17½	Espirito Santo	£20½	.....	Q75c	3.3	2.2	13.7
260	182	First Nat. Fin. 10p.	218	+2	13.0	2.4	8.0	6.7
134	90	FNFC 6.3pc Cv. Pf.	113	.....	6.3%	–	7.4	–
£16⅝	£12½	Fuji Bank Y50	£12¼	.....	Q15.6%	4.2	0.2	–
325	230	Gerrard & National	269	.....	18.5	–	9.2	–
154	118	Guinness Mahon 10p	149	.....	♦2.1	–	1.9	–
328	197	Hambros 20p	293	–4	†10.0	–	4.6	–
128	90	Do. 7.5pc Cv Pf	116xd	–1	7½%	–	8.6	–
60	39	HK & Shang. HK$2.50	57	–½	Q42c	–	5.7	–
495	423	Joseph (Leo) £1	458	.....	15.85	–	4.6	–
145	115	King & Shaxson 20p	136	–2	9.25	–	9.1	–
422	277	Kleinwort Benson Grp	410	+4	14.0	–	4.6	–
665	576	Kyowa Bank Y50	583	–11	Q14%	4.7	0.5	42.0
307½	213	Lloyds £1	281	–1	13.3	q2.6	6.3	8.1
56	40	Lon. Scot. Bank 10p	48	+1	2.4	1.8	6.7	10.1
406	287	Midland £1	337½	+4½	18.0	q2.7	7.1	7.0
£15¼	£10⅝	Mitsubishi Bank Y50	£10⅞	.....	†Q16%	8.1	0.3	42.5
£14¼	£8⅝	Mitsubishi Tst & Bk Y50	£8⅝	–¼	Q16%	8.2	0.4	31.0
£10⅝	£9½	Mitsui Bank Y50	£9½	.....	†Q16%	6.0	0.3	49.5
934	602	Mitsui Tst & Bk Y50	602	–4	Q16%	7.1	0.5	26.7
*352	269	Nat Aust. Bk. A$1	292	+2	sQ50c	1.6	7.7	8.0
365	255	NatWest £1	335	–2	16.7	q3.2	6.6	6.1
£220	£160	Ottoman Bank	£200	.....	Q90%	–	4.5	–
83	41	Rea Bros. Group	41	.....	0.5	–	1.6	–
*240	155	Rothschild (J) Hldgs.	196	+9	†9.5	3.6	6.5	5.6
227	139	Royal Bk. Scotland	175	–2	7.2	3.8	5.5	6.2
822	561	Saitama Bank Y50	561	–2	†Q13%	4.7	0.5	46.3
*1134	974	Sanwa Bank Y50	974	–4	†Q16%	8.3	0.3	37.0
1805	870	Schroders £1	1675	.....	19.5	–	1.6	–
1425	655	Do. £1 N/V	1315	.....	19.5	–	2.0	–
£33⅞	£19½	Sec. Pacific $10	£24	–⅛	Q$1.96	–	4.9	–
*616	449	Standard Chartd. £1	545	–4	33.9	2.9	8.3	4.7
£19⅞	£11½	Sumitomo Bank Y50	£11½	.....	†Q16%	7.5	0.3	46.7
£11⅞	£7½	Sumitomo Tst & Bk Y50	£7¼	–⅛	†Q16%	8.1	0.4	30.1
147	97	TSB	138	.....	5.8	2.8	5.9	8.4
234	140	TSB Ch'nel Is'l	149	.....	Q6.7	3.5	4.5	7.4
£11⅞	£7½	Tokai Bank Y50	£7¼	–⅛	Q16%	4.1	0.4	54.7
975	733	Toyo Tst & Bk Y50	798	–17	†Q15.2%	6.9	0.4	36.4
611	470	Union Discount £1	538	–1	33.0	–	8.2	–
525	277	Warburg (S.G.)	468	+6	†12.5	–	3.6	–
180	98	Do 6pc Cnv Prf	158	+1	6%	–	5.3	–
*284	226	Westpac $A1	244	+2	Q52.5c	1.5	9.7	6.7
468	408	Wintrust 20p	408	.....	†7.8	–	2.5	–
1016	691	Yasuda Tst & Bk. Y50	761	+3	‡Q17%	9.3	0.4	24.3

Hire Purchase, Leasing, etc.

High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
545	224	Anglo Grp. 10p	238	–2	†5.0	4.1	2.8	9.3
£190	£99½	Do. 9½ pc 1999	£184½	.....	Q9½%	–	9.1	–
*573	110	CLF Yeoman 50p	135	.....	‡Q46%	3.4	7.7	4.2
71	56	♦Cambridge Grp Ir5p	65	.....	‡Q7½%	14.8	0.5	16.7
100	37	♦Capital Leasing Ir 10p	39	–4	†Q12%	♦	2.8	♦
78	51	Cattle's (Hldgs) 10p	66	.....	†3.25	2.2	6.6	9.3
409	303	Prov. Financial	390	.....	20.5	♦	7.0	♦
235	100	♦Reflex Invs. Ir5p	220	.....	Q26.4%	♦	0.8	♦
236	146	Secure Trust Grp. 1p	225	.....	8.5	♦	5.2	♦
208	127	Woodchester Ir20p	206	+2	Q15.6%	♦	1.5	♦

BEERS, WINES & SPIRITS

High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
577½	417	Allied-Lyons	432	.....	†15.0	2.4	4.6	10.2
£29	£17⅞	Anheuser-Busch $1	£21⅞	–⅛	72c	–	1.7	–
1155	793	Bass	914	+3	28.2	3.1	4.1	10.5
203	133	Boddington	136	.....	4.3	2.5	4.2	12.3
208	135	Bulmer (H.P.) 5p	176	+2	†6.95	1.4	5.3	17.3
255	192	Burtonwood Brewery	216	.....	3.55	2.5	2.2	24.2
450	365	Clark (Matthew)	365	.....	†13.0	2.8	4.7	10.2
*361	217	Devenish (J.A.) 5p	217	.....	4.65	3.1	2.9	13.3
253	160	Do 4.5pc Cv 2ndPf	145	+8	4½%	25.3	3.8	–
242	152	♦Eldridge Pope "A"50p	153	.....	4.1	2.3	3.6	14.5
455	370	♦Fuller, S.T.A.	387	–3	†4.45	4.4	1.5	20.3
658	425	Grand Metrop. 50p	558	+4	17.75	2.5	4.2	11.0
379	258	Greenall Whitley	322	.....	8.7	2.9	3.6	12.0
177	129	Do. 5.95pcCvPf£1	153	–1	5.95%	–	5.2	–
622	355	Greene King	555	.....	†8.7	3.6	3.3	10.9
689	329	Guinness	658	+6	†11.5	3.8	2.3	15.5
188	102	Do. 5¼ pc Cnv Prf	181	+2	5.75%	25.0	4.2	–
£229¼	£119	Do 8¼ pcCnLn	£220½	+1	Q8¼%	69.0	3.7	–
261	135	Highland Dists. 20p	221	+2	3.85	2.7	2.3	21.2
*850	183	Macallan-Glenlivet	828	.....	†10.88	5.7	0.1	–
1965	1335	Macdonald Martin 'A'	1965	+5	‡Q24.0	2.1	1.6	38.8
515	455	Mansfield Brewery	457	–8	†9.5	3.5	2.8	13.7
240	166	Marston Thompson	185	–1	†3.38	3.5	2.4	15.9
423	323	♦Merrydown Wine	401	.....	†5.78	3.5	1.9	19.6
405	324	Morland	388	.....	†5.13	4.1	1.8	16.6
449	284	Scott & New 20p	373	.....	†10.83	2.3	4.9	11.4
384	245	Vaux Group 10p	347	.....	d7.84	2.2	4.2	13.7
428	299	Whitbread 'A'	372	–2	†12.55	2.8	4.5	9.8
490	378	Wolv. & Dudley	378	–1	†9.0	3.8	3.2	12.0
550	475	Young Brew 'A' 50p	470	.....	†10.2	1.8	2.8	26.2
455	390	Do. Non. V. 50p	[illegible]	.....	†10.2	1.8	3.4	21.7

BUILDING, TIMBER, ROADS

High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
538	329	AMEC 50p	421	.....	†17.0	2.6	5.4	7.9
138	99	Do. 6½p Cm Cv Pf	104	–1	6½%	–	8.5	–
204	90	Abbey	90	.....	26.8%	4.1	9.6	3.4
118	87	♦Allen 5p	90	.....	†4.2	2.8	6.2	7.0
163	87½	♦Amco Corp.	140	.....	–	–	–	–
*460	77	Anglia Sec 10p	118	+1	2.0	6.7	2.4	6.4
294	138	Arncliffe 10p	138	.....	6.75	♦	6.5	♦
331	235	Ashtead Group 10p	235	.....	†2.5	8.9	1.3	11.0

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

مكتبة الأصل

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MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

For Seacon Hldgs see TRANSPORT

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ∥ No par value

B.Fr. Belgian Francs. Fr. French Francs. ff Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	82	.....
Craig & Rose £1 γ	828	.....
Finlay Pkg. 5p γ	57	.....
Holt (Jos) 25p γ	1343	−2

IRISH

Cap. 8½% Ln. 1991	£96	.....
9pc Cap Ln. 1996	£89¼	+⅛
Fin. 13% 97/02	£107½	.....
Arnotts	490	.....
Carrol (P.J.) γ	162	+9
Hall (R. & H.)	185	.....
Helton Hldgs γ	90	.....
IRG	215	.....
United Drug	160	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	39
Amstrad	5½
Astec (BSR)	54
BAT	83
BOC Grp.	45
BTR	36
Barclays	49
Blue Circle	29
Boots	23
Bowater	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons	40
Comm Union	40
Courtaulds	31
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	90
GEC	18
Glaxo	56
Grand Met	45
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds	52
Marks & Spencer	17
Midland Bk	27
Nat West Bk	29
P & O Dfd	50
Polly Peck	37
Racal Elect	19
RHM	35
Rank Org Ord	68
Reed Intnl	33
STC	20
Sears	9½
SmKl. Beecham A	46
TI	30
TSB	11
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	56
Vickers	18
Wellcome	60

Property

Brit Land	32
Control Secs	5
Land Securities	44
MEPC	44
Mountleigh	14

Oils

Aviva Petlm	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petlm	12
Gaelic Res	4½
Premier	18
Shell	37
Tuskar Res	18
Ultramar	31

Mines

Lonrho	22
RTZ	45

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
High Income						
American Income	6	92.41	92.41xd	98.86	-1.30	4.09
Gilts & Fixed Int.	6	100.8	100.8xd	106.9	....	10.27
High Inc Equity	6	131.2	134.7	143.3	+1.3	6.43
Worldwide Bond	6	198.3	198.3xd	210.1	-0.2	6.14
Capital Growth						
American Growth	6	192.2	194.1	206.5	-1.6	1.08
Asian Pacific	6	131.6	134.6	143.2	-0.8	0.60
Assets & Earnings	6	151.8	151.8	162.4	+1.0	3.11
Capital Reserve Acc	0	89.01	89.01	89.16	+0.23	6.73
Capital Reserve Inc	0	74.36	74.36xd	74.50	....	8.05
Commodity & Energy	6	109.4	111.7xd	118.9	-0.9	0.71
Dividend & Growth	6	45.31	46.36	49.32	+0.24	4.56
1992 Enterprise	6	60.07	61.39	65.31	+1.20	2.48
Euro Capital Acc	6	101.6	101.6	108.7	+0.3	0.87
Euro Capital Inc	6	97.94	97.94	104.8	+0.4	0.91
General	6	169.1	169.1xd	180.9	+1.1	2.76
International	6	61.19	61.88	65.84	-0.19	0.76
Japan	6	103.5	103.5	110.7	-1.6	0.00
Mastertrust	6	89.51	89.51	95.74	-0.29	1.48
UK Growth Acc	6	173.2	173.2	185.3	+0.4	1.46
UK Growth Dist	6	114.5	114.5	122.5	+0.2	2.51
US Emerging Cos	6	56.16	57.57	61.25	-0.73	0.00
Income & Growth	6	291.6	291.6	311.9	+2.1	3.79
Ethical	6	47.30	47.30	50.59	+0.11	1.98

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ

Brycourt Unit Tst Mngmt Ltd (1400)F
Bechetn Hse, Portman Sq, W1H 0JH 01-436 6362
Income Growth ... 1 | 187.5 | 187.5 | 194.4 | .... | 5.80

Buckmaster Mangmt Co Ltd (1200)H
The Stock Exchange, London EC2P 2JT

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-480 7216

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 01-407 5966

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SD

CIBC Unit Tst Managers plc (1200)H

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061 837 5060

CS Fund Managers Limited (1000)H
125 High Holborn, London WC1V 6PY

[illegible]

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[illegible]

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Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 7HF 01-493 7262
Dealing 01-493 8545

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
American Opps	5	51.40	52.42	55.41	-0.63	0.30
(Accum Units)	5	52.90	53.95	57.34	-0.65	0.30
European Opps	5	76.40	76.69	81.79	+0.14	0.00
(Accum Units)	5	76.82	77.11	82.24	+0.14	0.00
Far Eastern Opps	5	137.41	137.74	146.97	-1.20	0.00
(Accum Units)	5	138.79	138.62	147.85	-1.21	0.00
Gordon Opps	5	44.42	44.42	47.37	-0.39	0.00
(Accum Units)	5	45.69	45.69	48.72	-0.41	0.00
Intl Hi-Yield	5	59.75	60.19	64.19	-0.21	4.29
(Accum Units)	5	65.13	65.61	69.98	-0.22	4.29
Sanyo Japan Tst	5	68.18	68.18	72.72	-0.80	0.00
(Accum Units)	5	68.18	68.18	72.72	-0.80	0.00
Kangaroo	5	31.56	31.56	33.66	-0.04	2.54
(Accum Units)	5	31.74	31.74	33.85	-0.04	2.54
Oriental Income	5	34.82	34.86	37.17	-0.19	5.05
(Accum Units)	5	39.04	39.08	41.67	-0.17	5.05
Pacific Technology	5	61.68	61.68	65.21	-0.22	0.00
(Accum Units)	5	62.18	62.18	65.74	-0.22	0.00
Tiger	5	153.59	153.59	163.82	[illegible]	[illegible]
(Accum Units)	5	155.99	155.99	166.37	-0.42	0.68
UK Hi-Yield	5	42.61	42.61	45.44	+0.03	5.03
(Accum Units)	5	48.72	48.72	51.96	+0.02	5.03
UK Opps	5	53.84	56.79	60.52	-0.07	0.70
(Accum Units)	5	58.58	61.58	65.65	-0.11	0.70

Three Counties Asset Mngmt Ltd (1430)F
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034

Balanced Portfolio	6	90.31	91.95	97.80	+0.42	4.00

Touche Remnant Unit Tst Mngt Ltd (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 01-248 1250
4 Hourly Pricing—12 Noon Historic

TR American Grth	5¼	48.29	48.29	51.50	-0.45	0
TR Eur Sp Sits Acc	5¼	43.74	43.74	46.61	+0.06	0
TR Eur Sp Sits Inc	5¼	42.89	42.89	45.71	+0.07	0
TR Far East Opps Inc	5¼	23.75	23.75	25.00	—	—
TR Far East Opps Acc	5¼	23.75	23.75	25.00	—	—
TR General Growth	5¼	72.91	72.91	77.56	-0.12	2.86
TR Global Tech	5¼	74.78	74.78	79.76	+0.05	0
TR Income Growth	5¼	85.00	85.50	90.95	-0.13	6.75
TR Income Monthly	5¼	53.55	53.55	56.96	-0.06	7.06
TR Japan Growth	5¼	89.29	89.29	94.75	[illegible]	0

[illegible]

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Grs
Intl Exempt	142.6	144.2	—	3.56

Stewart Ivory & Co Ltd

Saltire PPP Feb 14	258.6	272.3	—	0.00

Closed to new business

Thornton Unit Managers Ltd

Managed Exempt Mar 1	99.88	106.14	—	3.40
(Accum Units)	100.49	106.79	—	3.40

Touche Remnant Unit Tst Mngt Ltd

TR Exempt European	1120	1124	—	2.40
TR Exempt Nth Amer	975	989	—	3.00
TR Exempt Pac Basin	947	950	—	0

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd

AA Friendly Sy Mar 9	—	169.5	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	301.1	317.0	—	—
Equity Ser. 1	128.7	135.5	-1.0	—
Prop. Acc. Ser 2	464.1	488.6	—	—
Equity Ser 2	149.2	157.1	-1.2	—
Selective Acc.	340.5	358.5	-1.4	—
Prop. Ser. 4	342.8	360.9	—	—
Equity Ser. 4	152.0	160.1	-0.9	—
Man. Ser. 4	437.8	460.9	-2.5	—
Fixed Int. Ser. 4	207.8	218.9	-0.5	—
Indexed Sec. Ser. 4	139.4	147.0	-0.1	—

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	101.8	107.2	−0.2	−
Managed Growth	140.1	147.5	−0.5	−
Managed Opportunity	144.3	151.9	−0.4	−
NFMC Target Financial	99.8	105.1	+0.1	−
Pension Funds				
Managed Cautionary	106.8	112.5	−0.2	−
Managed Growth	144.4	152.0	−0.4	−
Managed Opportunity	146.7	154.5	−0.5	−
NFMC Target Mngd Pen	1498.7	1577.6	+3.7	−

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	221.0	232.7	+1.4	−
Managed Prospect Fund	185.5	195.3	+1.0	−
Pens Managed	285.3	300.4	+4.0	−
Pens UK Equity	331.8	349.3	+3.7	−
Pens Overseas Equity	404.7	426.0	+13.1	−
Pens Property	160.7	169.2	−2.7	−
Pens Fixed Interest	168.5	177.4	−1.7	−
Pens Index Linked	142.3	149.8	−0.5	−
Pens Deposit	191.2	201.3	+0.5	−
Harvester & P.R.P.				
UK Equity	145.0	152.7	+1.6	−
Overseas Equity	144.8	152.5	+4.7	−
Fixed Interest	115.1	121.2	−1.2	−
Property	133.7	140.8	−2.3	−
Index Linked	129.2	136.1	−0.4	−
Deposit	132.7	139.7	+0.4	−
Managed	143.8	151.4	+2.0	−
With Profits	135.9	143.1	+0.3	−

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	338.6	356.5	+1.0	−
UK Equity	428.7	451.3	+4.2	−
Overseas Eq	361.1	380.2	−1.9	−
American	269.2	283.4	−2.6	−
Far East	385.3	405.6	−6.2	−
Property	220.1	231.7	+0.2	−
Fixed Int	208.9	219.9	−0.6	−
Indexed Gilt	135.0	142.2	+0.3	−
Deposit	160.6	169.1	−	−
Pension Fund (Accum Units)				
Managed	457.3	481.4	+0.8	−

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
UK Managed Initial		114.2	+0.4	−
Property Initial		166.4	−	−
Money Initial		79.1	−	−
Special Market Initial		137.7	−0.6	−
Japan Equity Initial		104.9	−0.8	−
North American Initial		84.2	−0.8	−
Pacific Initial		81.3	−0.2	−
Technology Initial		104.6	+0.6	−
Nat Resources Initial		58.3	+0.4	−
European Initial		109.9	−0.1	−
Residential Prop Init		103.8	−	−
Swiss Equities Initial		37.1	+0.1	−
Hong Kong Initial		48.5	−0.3	−
UK High Inc Eq Init		67.8	+0.4	−
Int. Fixed Interest Init		48.4	−0.1	−
Int. Managed Init		56.5	−	−
HIP Managed Init		113.2	−	−
HIP Managed II Initial		97.9	−	−
Broker Funds				
High Performance	76.0	80.1	−	−
Towerhill Mngd Fd Acc	50.4	53.1	−	−
YRA Executive Fd	92.2	97.2	−0.1	−
C Global Growth Acc	130.5	137.6	−	−
L High Income Mony Acc	111.4	117.7	−	−
HM Balanced		56.0	−	−
H.F. Speculator Fd		158.9	−0.2	−
PEP Acorn II		125.4	−0.5	−
PEP Cautionary		86.9	−	−
AAFS Int Man Fund		119.5	−	−
Andrews-Green Inv Port		103.9	−	−
Individual Pension Funds				
UK Equity Acc	218.7	230.8	+2.2	−
UK Fixed Interest Acc	171.4	180.9	−0.6	−
Intl Equities Acc	250.0	263.8	−	−
UK Managed Acc	179.7	189.5	+0.7	−
Property Acc	208.9	220.4	−0.1	−
Money Acc	136.6	144.1	−	−
Special Market Acc	278.1	293.4	−1.5	−
Japan Equity Acc	214.2	226.0	−2.1	−
North American Acc	131.5	138.8	−1.5	−
Pacific Acc	200.3	211.3	−0.6	−
Technology Acc	176.5	186.2	+1.2	−
Natural Resources Acc	115.4	121.8	+1.1	−
European Acc	141.3	149.1	−0.1	−
Residential Prop Acc	114.1	120.4	−	−
Swiss Equities Acc	38.3	40.5	+0.1	−
Hong Kong Acc	50.3	53.1	−0.3	−

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

مكتبة الأصل

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Henderson Management SA
21-25 Allee Scheffer L-2520 Luxembourg
01-638 5757 or 010-352 462232
Henderson Horizon Fund

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Japanese Portfolio	5	-	12.85	13.98	-0.13	—
Japan Smllr Cos P'flio	5	-	20.35	21.51	-0.19	—
Pacific Portfolio	5	-	11.34	11.98	[illegible]	—
Nth American P'folio	5	-	4.67	4.95	[illegible]	—
European Portfolio	5	-	8.62	9.12	+0.07	—
UK Portfolio	5	-	5.51	5.83	+0.03	—
Global Portfolio	5	-	9.31	9.84	-0.05	—
Fixed Int Portfolio	5	-	8.84	9.28	-0.05	—
Inv Cos Portfolio	5	-	9.54	10.02	—	—
Dollar Liquidity P'folio	5	-	0.8578	0.8600	[illegible]	—
Stg Liquidity P'folio	5	-	1.1762	1.1792	[illegible]	—

Hill Samuel Investment Services Intl SA
Marktgasse 63/65, 3001 Berne, Switzerland 224051
Hill Samuel Global Portfolio

	Bid Price	Offer Price	+ or -	Yield
Global Equity	$9.46		—	—
Global Bond	$9.14		—	—
Global Managed	$9.40		—	—
Sterling Fixed Int	£9.42		—	—
European Fixed Int	DM88.79		—	—
UK Equity	£9.06		—	—
UK Smaller Co's Eqty	£9.55		—	—
Nth American Equity	$9.35		—	—
US Smaller Co's Eqty	$9.26		—	—
Japanese Equity	Y936		—	—
European Equity	DM9.96		—	—
Pacific Basin Equity	$9.28		—	—

Ivory & Sime (Luxembourg) SA
13 rue Goethe L-1637 Luxembourg 010 352 464661
Atlas Fund

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global Cap Portfolio	5	-	2.407	2.553	[illegible]	0.25
United States Portfolio	5	-	2.404	2.550	[illegible]	0.55
United Kingdom Portfolio	5	-	1.067	1.132	[illegible]	11.80
Cont Europe Portfolio	Dfl	-	4.390	4.654	[illegible]	0.45
Euroyhka Portfolio	5	-	1.090	1.156	[illegible]	—
Japan Portfolio	5	-	0.888	0.939	[illegible]	—
Pacific Portfolio	5	-	2.635	2.793	[illegible]	1.00
Gold Portfolio	5	-	2.198	2.330	[illegible]	0.55
UK Growth of Income	5	-	1.150	1.220	[illegible]	1.90
Sterling Gilt Portfolio	5	-	0.916	0.970	[illegible]	9.00
Global Bond Portfolio	5	-	1.872	1.984	[illegible]	7.50
Dollar Portfolio	5	-	2.057	2.058	—	7.90
Yen Portfolio	5	-	0.931	0.932	[illegible]	2.20
Sterling Portfolio	5	-	1.040	1.040	[illegible]	4.40

Midland International Circuit Fund SICAV

[illegible]

Lazard Fund Managers—Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Lazard Japan Fund	$56.55	59.53	-0.30	—
Lazard Nth Am.	$20.55	21.88	—	1.0
Lazard Sel Port. £ Cap.	£13.76	14.86	—	—
Lazard Sel Port. £ Inc.	£9.14	9.63	—	13.2
Lazard Sel Port $ Cap.	$12.99	14.04	—	—
Lazard Sel Port $ Inc.	$8.54	9.02	—	8.25
Lazard U.K.	£1.311	1.377	—	—

M & G Island Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Island	645.7	686.4	+0.3	2.96
(Accum Units)	1256.9	1332.3	+0.6	2.96

MIM Financial Mngmt Intl Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Mngd. Currency	[illegible]	7.014	+0.001	5.27

MIM Portfolio Selection Fund Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Consistent	£1.036	1.102	+0.002	1.98
Far East Gwth	$1.334	1.419	-0.004	0.00
Smaller Co's	£0.948	1.008	+0.002	1.17
Special Sits	£0.961	1.022	+0.006	0.79
Intl Bond	$0.869	0.924	+0.001	6.37
American Fund	$1.939	2.062	-0.012	2.22
American Smaller Cos	$1.214	1.291	-0.009	0.00
Australian Fund	£1.626	1.729	-0.005	1.83
British Fund	£1.493	1.588	+0.009	5.56
European Fund	£2.279	2.424	-0.001	0.86
Gold Fund	£0.791	0.841	-0.003	0.00
Hong Kong Fund	£1.677	1.783	-0.013	5.55
International Fund	£1.412	1.502	-0.013	0.38
Japanese Fund	£2.833	3.013	-0.054	0.00
Japan Smaller Cos	£5.305	5.641	-0.033	0.00
Singapore & Malaysian	£1.562	1.661	-0.006	0.00
Dollar Fixed Interest	$0.982	1.044	-0.002	7.02
Sterling Fixed Int	£0.861	0.915	+0.005	11.12
Deutschmark Currency		DM5.029	+0.001	2.36
Dollar Currency		$1.007	+0.002	4.92
Sterling Currency		£1.076	+0.002	10.46
Yen Currency		Y201.3	+0.100	1.40
Managed Currency	£1.005	1.066	-0.001	4.96

Nikko Capital Mngmt (Europe) Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Japan Index Fund	Y3,710	3,747	—	—
New Generation Fd. S.	$22.42	22.65	—	—
Japanalyzer Alpha	Y11,686	12,064	—	—
Jap Sector Rotation	Y9,487	9,852	—	—

Strongfield Asset Mngmt (Guernsey) Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Tech and Comms	£12.71	13.48	—	—
Pacific Basin Fd	$114.39	121.19	—	—
Western European	$19.85	22.12	—	—

Tyndall International (Guernsey) Ltd

[illegible]

JERSEY (**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

DUBLIN (**)

[illegible]

OFFSHORE INSURANCES

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Nervous yen slightly firmer

The Japanese yen rallied slightly against the dollar yesterday, despite attempts by the Bank of Japan to play down speculation about a rise in its discount rate. It has been suggested in the financial markets that an increase in the discount rate may follow today's return to Tokyo of Mr Yasushi Mieno, the Bank's Governor, from a visit to Europe.

Referring to this an official at the Bank of Japan said it is unwise for the central bank to alter its monetary policy only to respond to currency movements. He added that interest rate policy should be managed to achieve the policy goals of controlling inflation and rectifying international trade imbalances.

His comments were in reaction to a general market view that Japan should raise its discount rate by ¾ per cent to 5 per cent if it wishes to halt the yen's recent decline. Dealers said the present value of the yen already discounts a rate rise and that if the Bank of Japan continues to resist such a move the currency will continue to weaken.

The Bank of Japan also said yesterday that the main industrial nations should remain committed to containing inflation in order to control currency movements. Co-ordinated intervention in the markets will be effective only if there is confidence in the commitment to currency stability.

At the close of trading in London the dollar had eased to Y152.20 from Y152.50. Profit taking led to a general decline of the US currency in quiet and featureless trading lacking fresh economic news. The dollar fell to DM1.7135 from DM1.7160; *to SFr1.5260* from SFr1.5275; and to FFr5.7875 from FFr5.8050. On Bank of England figures the dollar's index weakened to 68.5 from 68.8.

Sterling improved in nervous trading as the market awaits an important period for UK economic news, including Tuesday's Budget and the *trade figures next Thursday.*

The pound rose 90 points to $1.6095. It also advanced to DM2.7575 from DM2.7475; to Y245.00 from Y244.00; to SFr2.4550 from SFr2.4450; and to FFr9.3150 from FFr9.2900. According to the Bank of England sterling's index rose 0.2 to 86.4.

The D-Mark lost a little ground within the European Monetary System, weakening against *the lira and French* franc. At the London close the D-Mark had eased to L737.65 from L738.65 and to FFr3.3775 from FFr3.3880.

The South African financial rand weakened sharply after Mr Nelson Mandela, leader of the African National Congress, called for tougher sanctions against South Africa. The presentation of the Budget to Parliament in Pretoria had little impact on the currency, but the Government ruled out any relaxation of South African exchange controls or the abolition of the two-tier currency system. In London the dollar rose to R4.1250 from R4.0735 against the financial rand.

£ IN NEW YORK

Mar.14	Latest	Previous Close
£ Spot	1.6070-1.6080	1.6095-1.6105
1 month	0.94-0.93pm	0.94-0.93pm
3 months	2.75-2.72pm	2.57-2.53pm
12 months	9.70-9.60pm	9.15-9.05pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

Mar.14		Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Mar.14	Bank rate %	Special* Drawing Rights	European † Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

† Sterling quoted in terms of SDR and ECU per £. * European Commission Calculation. * All SDR rates are for Mar.13

CURRENCY MOVEMENTS

Mar.14	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Mar.14	£	$
[illegible]	[illegible]	[illegible]
Taiwan	42.35-42.45	26.35-26.40
U.A.E.	5.8985-5.9065	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Mar 14	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14¾	15-14⅞	15¼-15⅛	15¼-15⅛	15½-15⅜	15⅞-15¾
US Dollar	8¼-8⅛	8⅜-8¼	8⅝-8½	8¾-8⅝	8⅞-8¾	9⅛-9
Can. Dollar	12¾-12½	12¾-12⅝	13-12¾	13-12¾	12⅞-12¾	12⅞-12¾
D. Guilder	8⅝-8½	8⅝-8½	8⅞-8¾	8⅞-8¾	9⅛-9	9¼-9⅛
Sw. Franc	8⅝-8½	8⅝-8½	8⅞-8¾	9⅛-8⅞	9⅛-9	9¼-9⅛
Deutschmark	8-7⅞	8-7⅞	8⅜-8¼	8⅝-8½	8⅞-8¾	9¼-9⅛
Fr. Franc	10⅛-10¼	10⅛-10¼	10⅜-10¼	10⅝-10½	11-10⅞	11¼-11⅛
Italian Lira	13-11	12-11	12⅝-12½	12⅝-12½	13-12⅞	13¼-13⅛
Belgian Franc	10⅜-10¼	10⅜-10¼	10⅝-10½	10⅝-10½	10⅞-10¾	10⅞-10¾
Yen	6⅝-6½	7-6⅞	7⅛-7⅛	7⅛-7⅛	7¼-7⅛	8-7⅞
D.Krone	12-11⅞	12¼-12	12⅛-12⅛	12⅜-12¼	12½-12⅜	12⅝-12½
Asian $Sing	8¼-8⅛	8⅜-8¼	8½-8⅜	8⅝-8½	8¾-8⅝	9⅛-9

Long term Eurodollars: two years 9⅜-9¼ per cent; three years 9⅝-9½ per cent; four years 9⅝-9½ per cent; five years 9⅝-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

Mar.14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6015-1.6120	1.6090-1.6100	0.91-0.89cpm	6.71	2.61-2.56pm	6.45
Canada	1.8805-1.8940	1.8895-1.8905	0.32-0.24cpm	1.78	0.93-0.79pm	1.81
Netherlands	3.09¼-3.11	3.10-3.11	1⅝-1½cpm	6.04	4⅝-4½pm	6.12
Belgium	56.95-57.40	57.25-57.35	28-17cpm	4.71	76-56pm	4.68
Denmark	10.52¼-10.57	10.54-10.55	2¾-2½orepm	2.92	7¾-7¼pm	2.84
Ireland	1.0310-1.0375	1.0345-1.0355	0.33-0.38pm	4.12	0.74-0.64pm	2.67
W. Germany	2.74¼-2.76	2.75¾-2.76	1⅝-1½pfpm	6.80	4½-4⅜pm	6.53
Portugal	242.10-244.00	242.90-243.90	2-21cdis	-0.57	104-140dis	-2.00
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.99-4.94cpm 12 month 9.12-9.02cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Mar.14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Mar.14	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Mar.14	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE EURODOLLAR OPTIONS; LIFFE SHORT STERLING OPTIONS

Strike Price	Calls-settlements		Puts-settlements	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE) / CHICAGO

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

	%		%		%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONEY MARKETS

UK rates easier

LONDON INTEREST rates eased in quiet trading yesterday. A slight firming of sterling helped sentiment, but the money market had a cautious tone ahead of UK employment data today and the Budget on March 20. A fairly tight Budget is expected, but no early change in bank base rates. Three-month interbank fell to 15⅛-15⅛ per cent from 15⅛-15⅛, and one-year money declined to 15⅞-15⅞ per cent from 15⅞-15⅞.

UK clearing bank base lending rate 15 per cent from October 5

Short sterling futures were firmer on *Liffe*. June delivery opened higher at 84.67, and touched a peak of 84.78, before closing at 84.76, against 84.65 previously.

The Bank of England initially forecast a day-to-day credit shortage of £550m, but revised this to £600m in the afternoon. Total help of £493m was provided.

Before lunch the authorities bought £109m bank bills in band 2 at 14⅞ per cent. In the afternoon another £199m bills were purchased, by way of £41m bank bills in band 1 at 14⅞ per cent and £158m bank bills in band 2 at 14⅞ per cent. Late assistance of around £185m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £206m, with Exchequer transactions absorbing £310m, and a rise in the note circulation £100m. These outweighed Bank balances above target of £65m.

In Frankfurt call money fell to 7.90 from 7.95 per cent after the Bundesbank injected a net DM3bn at this week's securities repurchase agreement tender. This action suggests the central bank's council meeting today is unlikely to raise official interest rates, according to dealers. It appears that the Bundesbank is pursuing a steady monetary policy to calm fears caused by negotiations on monetary union between East and West Germany. The fact that some funds were allocated at the tender at only 7.80 per cent - below the prevailing call money rate - was regarded as a sign that the Bundesbank has no desire to increase rates at present.

Bids of DM23.3bn were accepted at the repurchase agreement tender, via DM14.2bn for 35-day money at rates of 7.80 to 8.15 per cent, and DM9.1bn for 63-day funds at rates of 7.95 to 8.10 per cent. *The funds were required to* replace DM20.3bn draining from the banking system yesterday, as two earlier pacts expired.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar.14)	3 months US dollars		6 months US Dollars	
	bid [illegible]	offer [illegible]	bid [illegible]	offer [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds

Prime rate	[illegible]	One month	[illegible]	Three year	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]	Four year	[illegible]
Fed.funds	8⅛	One year	8.45	10-year	8.68
Fed.funds at intervention	-	Two year	8.73	30-year	8.66

Mar.14	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.85-7.95	8.15-8.30	8.20-8.35	8.35-8.50	8.80-8.95	8.00
Paris	10⅛-10⅛	10⅛-10⅛	-	10⅛-10⅞	-	10.00
Zurich	8⅞-8⅞	8⅞-9⅛	-	9-9⅛	-	-
Amsterdam	8.00-8.10	8.60-8.70	-	8.90-9.00	-	-
Tokyo	6⅝-6⅝	7⅛-7⅞	-	7⅞-7⅞	-	-
Milan	12⅞-13⅛	13-13⅛	-	13⅛-13½	-	-
Brussels	7.75	10⅛-10⅛	-	10⅞-10⅞	-	-
Dublin	10⅞-11	11⅞-11⅞	12⅛-12⅛	12⅞-12⅞	12⅞-13⅛	-

LONDON MONEY RATES

Mar 14	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	16	14⅞	15⅛	15⅛	15⅝	15⅞
Interbank Bid	14⅞	14⅞	15⅛	15⅛	15⅛	15⅛
Sterling CDs.	-	-	15⅛	15⅛	15⅜	15⅝
Local Authority Deps.	14⅞	14⅞	15	15⅛	15⅛	15⅛
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	16	14⅞	14⅞	14⅞	-	-
Company Deposits	-	-	15⅛	15⅛	15⅜	15⅝
Finance House Deposits	-	-	15⅛	15⅛	15⅜	15⅝
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	14⅞	-
Fine Trade Bills (Buy)	-	-	15⅜	15⅜	15⅜	-
Dollar CDs.	-	-	8.42	8.52	8.68	9.00
SDR Linked Dep. Offer	-	-	9⅛	9⅛	9⅜	9⅝
SDR Linked Dep. Bid	-	-	8⅞	9⅛	9⅛	9⅜
ECU Linked Dep. Offer	-	-	10⅞	11	11⅛	11⅜
ECU Linked Dep. Bid	-	-	10⅝	10⅞	11⅛	11⅛

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.5884 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day February 28 1990. Agreed rates for period March 26 1990 to April 24, 1990, Scheme I: 15.87 p.c., Schemes II & III: 16.41 p.c. Reference rate for period Feb.1,1990 to February 28, 1990, Scheme IV&V: 15.141 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from March 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989. Deposits withdrawn for cash 5 per cent.

JOTTER PAD

CROSSWORD

No.7,189 Set by HIGHLANDER

ACROSS

1 Lose track of malt's introduction on Scottish island (6)
4 Aide-memoire about tender (8)
9 Riding gear obtainable for tuppence once in stock clearance (6)
10 Force animal to drop off (8)
12 To insult about half the street is hard to fathom (8)
13 Return label with each top-class cake (6)
15 No opening to drain large vessel (4)
16 One more on earth? Could be (7)
20 Leaf-insect's display (7)
21 Son is able to scrutinise minutely (4)
25 After taking two points, side gets pronounced respect (6)
26 Complete Sheridan's Sir Anthony (8)
28 Sat on her broken old chair (8)
29 Attempting to be difficult (6)
30 Bear, I heard, is natural sight (5,3)
31 First part of Gobi desert is free (6)

DOWN

1 Foreign ladies made off in disarray (8)
2 Avoid teams favoured to go up (8)
3 The greatest possible river attraction (6)
5 Charge up about 100 European monetary units (4)
6 Unfortunate at being trapped inside, badly nourished (3-5)
7 He drives many a make of car (6)
8 French road almost chock-a-block: that's sad (6)
11 Apart from when lower in status (7)
14 Be prepared to defend (5,2)
17 One vehicle in middle of road makes list of all runners (8)
18 A strange sound to make familiar (8)
19 Given his original rails (8)
22 Sprinkle salt on in winter perhaps (6)
23 Move quickly in vain, it's said (6)
24 For every round, our drinks dispenser appears (6)
27 Advance on the front line involving bloodshed (4)

Solution to Puzzle No.7,188

SPHERE FLOWERED / JALOPY POTATION / UNDERFED SPONGE / MAZE STUPENDOUS / DENDRIFORM STUB / BALLET OVERRIPE / TARBOOSH TWEEDS / DISASTER PRISED

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY · GERMANY (continued) · ITALY · ITALY (continued) · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO

4pm prices March 14

MONTREAL

4pm prices March 14

Total Sales 5,8[illegible],105 shares.

INDICES

NEW YORK

DOW JONES	Mar 14	Mar 13	Mar 12	Mar 9	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2687.84	2674.55	2686.71	2683.33	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	90.39	90.34	90.58	90.56	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1158.25	1155.76	1144.91	1139.05	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	217.12	217.05	219.00	219.50	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2705.18 (2699.55) Low 2662.39 (2657.88)

STANDARD AND POOR'S

	Mar 14	Mar 13	Mar 12	Mar 9	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	336.89	336.00	338.67	337.93	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	389.65	388.15	391.25	390.35	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	28.70	28.70	28.95	28.89	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	185.68	185.25	186.51	186.18	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (28/4/42)
Amex Mkt. Value	361.37	360.79	361.87	361.19	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	436.15	434.58	436.56	436.76	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Mar 9	Mar 2	Feb 23	year ago (approx.)
Dow Industrial Div. Yield	4.08	4.26	4.14	3.70

	Mar 7	Feb 28	Feb 21	year ago (approx.)
S & P Industrial div. yield	3.09	3.13	3.16	3.16
S & P Ind. P/E ratio	14.74	14.47	14.32	13.04

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Unisys Corp	3,249,000	16⅝	+ 1
Japan OTC	3,161,400	12	—
Chase Man	1,704,900	28¼	− ⅛
Philip Morris	1,630,500	37⅞	+ ⅛
Exxon	1,458,300	46½	+ ⅜
Smithkline B Un	1,457,000	37⅝	− 1½
Nat Semiconductor	1,334,300	7⅛	+ ⅛
Gen Electric	1,310,700	63	+ 1
Consol Paps	1,300,300	21⅛	− ⅛
GM	1,247,700	106¼	—

TRADING ACTIVITY

† Volume (Millions)	Mar 14	Mar 13	Mar 12
New York	146.248	145.440	114.790
Amex	10.116	10.569	10.278
NASDAQ	(u)	120.680	103.847
Issues Traded	(u)	1,956	1,950
Rises	(u)	555	751
Falls	(u)	899	703
Unchanged	(u)	502	496
New Highs	(u)	23	24
New Lows	(u)	37	29

CANADA TORONTO

	Mar 14	Mar 13	Mar 12	Mar 9	1989/90 HIGH	1989/90 LOW
Metals & Minerals	3175.58	3144.40	3132.64	3141.12	3919.2 (1/9/89)	2921.0 (23/2/90)
Composite	3734.63	3734.10	3740.22	3732.90	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	1915.20	1916.42	1924.62	1918.34	2069.68 (10/10/89)	1677.48 (3/1/89)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Mar 14	Mar 13	Mar 12	Mar 9	1989/90 HIGH	1989/90 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1558.6	1560.6	1571.0	1579.2	1781.8 (29/8/89)	1412.9 (7/4/89)
All Mining (1/1/80)	798.4	803.4	805.0	809.8	875.1 (29/8/89)	652.6 (7/4/89)
AUSTRIA						
Credit Aktien (30/12/84)	673.31	677.37	675.76	676.61	688.73 (8/3/90)	219.5 (2/1/89)
BELGIUM						
Brussels SE (1/1/80)	5981.95	6003.91	6024.67	6040.50	6809.28 (26/9/89)	5519.30 (4/1/89)
DENMARK						
Copenhagen SE (3/1/83)	376.38	375.68	376.97	377.46	380.32 (5/2/90)	275.49 (27/2/89)
FINLAND						
Unitas General (1975)	641.1	644.3	643.9	648.8	815.8 (18/4/89)	580.8 (23/11/89)
FRANCE						
CAC General (31/12/82)	517.42	515.81	515.77	520.78	561.6 (11/10/89)	417.9 (4/1/89)
CAC 40 (31/12/87)	1946.37	1924.38	1912.59	1921.11	2006.42 (4/1/90)	1525.38 (27/2/89)
GERMANY						
FAZ Aktien (31/12/58)	789.88	784.54	774.29	779.14	807.13 (5/2/90)	535.78 (27/2/89)
Commerzbank (1/12/53)	2296.9	2281.9	2258.2	2269.0	2370.8 (6/2/90)	1595.7 (27/2/89)
DAX (30/12/87)	1862.84	1857.48	1846.08	1858.74	1939.43 (5/2/90)	1271.70 (23/2/89)
HONG KONG						
Hang Seng Bank (31/7/64)	2881.23	2887.62	2892.98	2912.67	3309.64 (15/5/89)	2093.61 (5/6/89)
IRELAND						
ISEQ Overall (4/1/88)	1755.18	1736.60	1728.41	1728.45	1895.10 (22/1/90)	1360.64 (10/1/89)
ITALY						
Banca Com. Ital. (1972)	666.96	665.32	665.18	666.25	734.84 (31/8/89)	577.49 (28/2/89)
JAPAN						
Nikkei (16/5/49)	32352.15	32620.57	33368.23	33993.12	38915.87 (29/12/89)	30183.79 (5/1/89)
Tokyo SE (Topix) (4/1/68)	2429.7	2457.10	2508.80	2539.89	2884.80 (18/12/89)	2366.91 (6/1/89)
2nd Section (4/1/68)	4051.83	4093.85	4145.68	4176.91	4284.68 (9/2/90)	2774.38 (27/3/89)
MALAYSIA						
KLSE Composite (4/4/86)	596.66	596.79	608.24	606.94	622.20 (20/2/90)	357.31 (3/1/89)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	253.8	252.0	251.1	251.0	272.7 (21/9/89)	208.3 (3/1/89)
CBS All Shr (End 1983)	194.7	193.3	192.6	192.6	210.5 (6/9/89)	166.7 (1/3/89)
NORWAY						
Oslo SE (2/1/83)	838.05	835.02	834.97	838.46	838.46 (9/3/90)	467.37 (2/1/89)
PHILIPPINES						
Manila Comp (2/1/85)	1034.07	1041.22	1037.70	1035.32	1396.26 (20/11/89)	804.62 (6/2/89)
SINGAPORE						
SES All-Singapore (2/4/75)	428.04	428.51	432.80	432.75	443.34 (6/2/90)	360.67 (4/1/89)
SOUTH AFRICA						
JSE Gold (28/9/78)	2042.06	2006.0	2089.0	1919.0	2254.0 (12/12/89)	1291.0 (15/2/89)
JSE Industrial (28/9/78)	2990.06	2976.0	2942.0	2929.0	3211.0 (6/2/90)	1961.0 (3/1/89)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	838.39	841.56	850.65	852.70	1007.80 (3/4/89)	833.81 (26/2/90)
SPAIN						
Madrid SE (30/12/85)	269.58	272.25	273.38	273.44	[illegible]	[illegible]
SWEDEN						
Affärsvärlden Gen. (1/2/37)	1141.60	1145.30	1151.40	1157.50	1372.95 (16/8/89)	1021.96 (9/1/89)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(c)	761.5	768.0	766.0	829.1 (6/9/89)	613.1 (3/1/89)
TAIWAN**						
Weighted Price (30/6/66)	11896.87	11925.24	11837.54	11350.28	12495.34 (10/2/90)	4873.01 (5/1/89)
THAILAND						
Bangkok SET (30/4/75)	776.71	783.46	795.91	808.40	918.67 (5/1/90)	386.73 (2/1/89)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	500.4	507.0	512.3	571.0 (4/1/90)	487.6 (13/6/89)

**Saturday Mar. 10: Taiwan Weighted Price: 11791.20 Korea Comp Ex. [illegible]

§ Subject to official recalculation.

§Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday March 14 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	14.7m	608	-17	Hitachi	6.9m	1,670	-30
Kawasaki Steel	12.8m	642	-31	MHI	6.7m	934	-30
Kobe Steel	12.4m	725	-19	NKK	6.3m	602	-21
Hanwa	11.9m	4,410	+120	Toshiba	6.2m	1,040	-40
Sato Kogyo	10.4m	2,160	+30	Marubeni	5.8m	812	-18

4pm prices March 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	26	AAR	.48	1.7	17	370	28½	27⅞	28⅛	– ⅛
9⅝	8½	ACM n	1.26	14.		135	9⅛	9	9	– ⅛
11⅞	10½	ACMIn	1.26	12.		620	11	10⅞	10⅞	– ⅛
9⅞	7⅞	ACM M	p1.01	13.		638	8	d 7⅝	7⅞	– ⅛
12⅛	11½	ACMMM				280	11¾	11⅝	11⅝	
11½	10	ACM Sc	1.26	11.		881	11	10⅞	11	+ ⅛
9⅝	8⅛	ACMSp	1.01	11.		295	9	8⅞	9	+ ⅛
22¼	19	AL Lab	.16	.7	20	277	21½	21⅜	21½	+ ⅛
4⅛	3⅛	AMCA	.12e	3.6	42	207	3⅜	3¼	3⅜	+ ⅛
6⅛	3¼	AM Intl			11	479	3⅝	3¼	3⅜	+ ⅛
23½	16⅞	AM In pf	2	12.		14	16⅞	16¾	16⅞	
107¼	52½	AMR			8	6782	64⅝	63½	63¾	– 1⅛
27	25	ANR pf	2.67	11.		2	25¼	25¼	25¼	– ½
24⅞	23⅛	ANR pf	2.12	8.8		2	23½	23½	23½	– ⅛
5⅞	3⅛	ARX				118	4	3⅞	3⅞	– ⅛
72¼	39	ASA	3a	5.7		1271	53⅞	52⅞	53	– ½
70⅛	50⅞	AbtLab	1.68	2.6	17	5143	63⅞	63	63⅝	+ ⅛
17¼	11¼	Abitibi g	.50			86	13⅛	13⅛	13⅛	+ ⅛
13	8⅞	AcmeC	.40	4.1	11	249	9⅞	9⅝	9⅞	+ ⅛
9¼	7	AcmeE	.32	3.8	11	5	8⅜	8⅜	8⅜	– ⅛
38½	27	Acuson			22	287	34⅞	34¼	34¼	– ⅛
18½	12⅞	AdaEx	2.08e	13.		244	16⅛	16¼	15¾	– ¼
15⅛	7¼	Adobe				94	13⅛	13	13	– ⅛
20¼	16⅞	Adob pf	1.84	9.7		28	19	18⅞	19	+ ⅛
21⅝	19⅞	Adob pf	2.40	11.		173	21½	21⅜	21½	– ⅛
10½	6⅞	AMD			21	3058	9⅝	9⅜	9⅝	+ ¼
35	28¼	AMD pf	3	10.		21	28½	28¼	28½	+ ⅛
10⅛	5	Advest	.16	2.6	8	12	6¼	6⅛	6¼	
62½	46½	AetnLf	2.76	5.5	9	1760	50¼	50	50⅛	+ ⅛
14	9⅞	AflPb	.24	2.3		520	10⅜	10⅜	10⅜	
25	16⅛	Ahmans	.88	4.7	10	1774	18⅞	18⅝	18⅝	+ ⅛

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19⅜	15⅝	RobtsSf			15	81	17¼	17	17¼	+ ½
12⅝	9½	Robtsn			16	55	10¼	10⅛	10¼	
22¼	17	RochG	1.56	7.6	10	144	20¾	20¼	20⅝	+ ¼
45⅜	27⅜	RochTl	s1.46	4.2	18	290	35½	34½	35	+ ½
22¼	18½	RckCtr	1.88	9.9	17	696	19⅛	19	19	− ⅛
27¼	19¾	Rockwl	.78	3.5	8	2442	22	21⅞	21⅞	+ ⅛
7⅞	4⅞	RodRen				8	7½	7⅛	7⅛	− ⅛
37½	28¾	RoHaas	1.20	4.0	11	81	30½	30⅛	30⅛	+ ⅛
35½	15½	Rohr			74	340	22	21⅞	21⅞	
14⅛	9⅝	RollinE	.06	.5		910	13⅛	12⅞	13⅛	+ ¼
21	15⅞	Rollins	.56	3.4	17	129	16⅝	16⅛	16½	+ ½
9⅞	7⅛	RolLees	.20	2.5	9	157	8	7⅞	7⅞	
67⅞	36⅛	Rorer	.84	1.3	24	8175	65⅞	65	65⅛	− ⅛
14	6⅞	Rowan				1817	12⅞	12⅝	12⅝	+ ½
25¾	23¼	RBSct pr1.41e5.8				60	24¼	24	24¼	− ⅛
76⅞	60⅛	RoylD	3.38e	4.5	6	3979	75⅞	74⅞	75⅛	+ ⅜
16	8½	Roylnd	.20a	2.0	13	382	10	9⅞	9⅞	+ ½
10	8⅜	Royce	.52a	5.9		125	9	8⅞	8⅞	
37¾	26½	Rubmd	.52	1.5	22	358	35⅛	35⅜	35⅜	+ ⅛
20	13¾	RussBr	.40	2.9	22	118	14	13⅞	14	+ ⅛
15	8⅝	RussTg	.20	2.1	769	26	9⅝	9½	9⅝	− ¼
26½	19	Russell	.32	1.2	16	65	26	25⅞	25⅞	
31½	17⅞	Ryder	.60	3.1	33	1601	19½	19¼	19⅜	− ½
29½	15¼	Rykoff	.60	3.8	13	34	16	15⅞	15⅞	− ¼
25⅜	19¼	Rylend	.60	3.1	6	10	19⅝	19⅝	19⅝	
14⅜	8¼	Rymer				12	8⅝	8⅝	8⅝	− ⅛
10⅝	8⅞	Rymr pf1.17	.15			11	9⅛	9⅛	9⅛	
		– S – S – S –								
41	31	SCEcp	2.56	6.7	11	1060	38⅛	37⅝	38⅛	
14½	8¼	SCOR U	.20	1.6	16	681	12⅞	12⅝	12⅞	
9½	7⅞	SL Ind	.17b	2.1	13	13	8	8	8	+ ⅛
60⅛	34⅛	SPSTec	1.28	3.7	17	31	34⅞	34⅜	34⅞	+ ⅜
38⅝	22⅞	SPX Cp	1	4.0	6	66	24⅞	24½	24⅞	+ ⅜
38⅝	27¼	SSMC			55	6	31⅞	31⅞	31⅞	+ ⅛
21⅛	6⅞	Saatchi	.49e	7.0		882	7	6⅞	6⅞	− ⅛
14⅝	12	SabnR	1.40e	12.	9	43	12⅛	12	12	− ⅛
[illegible]										

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
12	7⅝	WyleLb	.28	2.4	16	39	11⅝	11⅝	11⅝	− ¼
20	16⅞	Wynns	.40	2.1	10	10	19½	19⅛	19⅛	− ⅛
		– X – Y – Z –								
69	46⅞	Xerox	3	5.5	6	3468	55⅛	54⅝	55	+ ½
41⅛	29½	XTRA	.72	2.4	57	620	30⅛	30	30⅛	+ ⅛
32⅞	21	XTRA pf1.94		8.4		8	23⅛	23⅛	23⅛	
4⅛	2⅛	Zapata				165	2⅛	2⅛	2⅛	− ⅛
13⅞	6⅞	Zayre				15	7⅞	7⅞	7⅞	+ ⅛
9⅞	7⅞	ZenithN				763	9½	9⅛	9½	+ ⅛
21⅞	16	ZenitB	.98	[illegible]			17⅛	17	17⅛	+ ⅛
9⅞	4⅞	Zenix	.98	17.		129	5⅞	5⅞	5⅞	− ⅛
16½	13	Zero s	.40	2.5	14	125	16⅛	14⅞	16⅛	+ ⅛
44⅜	29⅞	Zurnin	.76	[illegible]			39⅛	39	39⅛	+ ⅛
12⅞	10½	Zweig	1.21e	11.		341	11⅞	11⅛	11⅞	
10	8⅞	ZweigTl	.96	10.		649	9⅛	9⅛	9⅛	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices March 14

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

3pm prices March 14

Stock	Div.	P/ E	Sales 100s	High	Low	Last	Chng
[illegible]							

AMERICA

Bonds prompt strong gains in quiet trading

Wall Street

US EQUITIES moved broadly higher on the back of a rebound in the Treasury bond market during quiet trading on Wall Street, *writes Karen Zagor in New York.*

The Dow Jones Industrial Average was closed up 13.29 points at 2,687.84 on fairly light volume of 146.2m. On Tuesday, the Dow lost 12.16 points to close at 2,674.55 on volume of 145.4m. On the big board, advancing issues led those declining by 815 to 641.

The afternoon gains were broadly-based, with other major market indices all moving higher. The important Standard & Poor's 500 closed up 0.88 points at 336.88, the New York Stock Exchange Composite rose 0.43 points to 185.68, while the American Exchange Composite improved 0.58 points to 361.87.

Secondary issues also moved higher, with the NASDAQ composite up 1.57 points at 436.15.

The stock market moved in tandem with the bond market. The Treasury's bellwether 30-year bond rallied to gain 1⅛ point in late trading, yielding 8.6 per cent, after tumbling as much as 1 point on Tuesday.

The main economic focus for stock and bond markets was publication of the latest Tan Book of regional reports from Federal Reserve districts. This is used as a guide to monetary policy decisions at the Federal Open Market Committee.

The Tan Book provided no surprises, saying that the economy continues to expand at a slow pace, although an improvement is expected later in the year.

The only other economic news of import was the release of business inventories, which rose 0.2 per cent in January, compared with a revised decline of 0.4 per cent in December. The news had little impact on the stock and bond markets.

Among featured stocks, Caterpillar was unchanged at $60¾. It slipped $¾ earlier in the day after falling in London trading on a report which indicated that the company expects earnings to be under pressure for some time.

Monsanto fell $5⅝ to $104½ after the St Louis, Missouri-based company said its first-quarter earnings would be below recent Wall Street estimates and below the 1989 first quarter of $3.24 a share. However, Monsanto said its outlook of record earnings and sales for the whole of 1990 had not changed.

West Point-Pepperell jumped $5⅝ to $46¾ in unusual market activity.

Japan OTC Equity Fund, the newest entry in the field of single-country mutual funds, was unchanged at $12, the price at which the fund's initial 8.5m shares were sold. The issue was one of the most heavily traded.

Cray Research dropped $3⅛ to $46, after the company's president indicated that Cray would shift much of its sales efforts to the commercial and industrial sector because of softness in the government market. Among other single-country funds, Spain Fund fell $⅛ to $20⅝, Germany Fund added $¼ to $16⅝, while the New Germany Fund rose $⅜ to $16⅝. Austria Fund was unchanged at $16, and the Helvetia Fund was off $⅛ at $12⅞.

Among blue chip issues, IBM slipped $¼ to $106¼ and Merck rose $⅜ to $68⅞.

Canada

Share prices drifted in a narrow range to close mixed after slow trading in Toronto.

The composite was up 0.54 to 3,734.63, but declines led advances 316 to 287. Volume of 20.5m shares included more than 2m shares of Nova Corp. Volume on Tuesday was 16.3m shares. Trading value climbed to C$270.7m from C$205.9m.

Hungary reopens bourse in an act of faith

Nicholas Denton looks at stock exchange prospects in a troubled economy

SOMETIME this summer Hungary will re-establish its stock exchange, 42 years after it was closed by the country's Communist regime. The move is an act of faith in an economy in crisis, in a country lacking an effective government.

Hungary has its first free elections for more than 40 years in ten days' time. It could be months before effective central government is re-established but, later this year, the stock exchange is scheduled to move into its new home, a large marble room in a bank building in the centre of Budapest. All that the market will need then is supply and demand.

The embryonic Hungarian stock market is trapped in a vicious circle. Hungarians lost the habit of buying shares in the years after the market was closed in 1948 and, now that inflation is high and rising, they are reluctant to consider long-term investment. The few institutions that own most of the stocks are sluggish traders, so there is little growth in share prices, and most companies are undervalued by the market.

With bank and Treasury bond interest rates above 20 per cent, companies have to offer absurdly high dividends to compensate for the lack of capital growth, and this handicaps their ability to retain profits and grow. But even dividends of 14 to 18 per cent are insufficient to bring Hungarian investors in great numbers to the market, so there is little share price growth and the lack of liquidity is self-perpetuating.

Mr Andras Simor, director of CA-BB, one of Hungary's few independent brokers, says that this vicious circle means that it will be a long time before one can talk of a real stock market. "Here, people have to learn first how to invest. Something will click one day, but what will make it click, I don't know."

Mr Zsigmond Jarai, Deputy Minister of Finance, is equally convinced that the stock market is meaningless until attitudes change. "We can create the law, the structures, but we can't do anything but meet if people don't want to buy stock and companies don't want to offer stock."

Although everyone recognises that new laws are insufficient in themselves, the framework of the stock market has been created. From 1982, the law permitted the issue of bonds; from 1987, the formation of share companies. Since 1988, there have been regular stock exchange days, when the banks and the only three independent brokers sit round a table for an hour to trade shares and bonds.

The embryonic Hungarian stock market is trapped in a vicious circle

On March 1, the Securities' Act, which provides the structure of the new stock exchange, came into force. Commercial banks, which now dominate trading, must set up separate trading arms, on what Ms Ilona Hardy, head of the Securities' Trading Committee, calls the Anglo-Saxon model. The logic of the separation of securities' traders from the banks is, according to Mr Simor, that "they will then have to make the stock market work because it's the only way they make money."

Linked to this measure is a prohibition of insider trading, rife in the Hungarian stock market until now. Dealers would often trade in a company's share on the basis of the inside information that the bank had lent the company some money.

The crucial impetus to the stock market will come not from regulation, but from the eventual privatisation of state companies on to the stock exchange. The Government has already enticed two foreign investment funds, the First Hungarian and the Hungarian Investment Company, to Hungary. Several other funds, each with a value of between $50m and $100m, are following.

Mr Janos Bartha, of the Hungarian National Bank, says it would have been nice to let liquidity develop naturally — without government guarantees for the pioneer companies. "But we don't have the time," he adds.

The key, according to Mr Jarai, is a public offering of an attractive company. Ibusz, the Hungarian state tourist company, is his candidate. When there was first talk about privatising Ibusz, Mr Jarai says, letters arrived from many people asking where they could buy the shares. They will probably be issued in May on the Vienna and Budapest markets, underwritten by Girozentrale Wien.

Mr Jarai is frank about the need to undervalue the shares and to give generous credits to make the issue a success and to change public attitudes to the stock market. "We have to let people make a good return on shares."

SOUTH AFRICA

JOHANNESBURG firmed with a spurt of late activity in reaction to Pretoria's Budget. Quality gold and mining financial stocks led gains.

EUROPE

Individual shares respond to company results season

FOR GOOD or ill, the company results season was beginning to affect the progress of share prices yesterday, in appreciation or anticipation of earnings performance, *writes Our Markets Staff.*

MILAN picked up after a weak start on the final day of the March trading account, thanks to a late rally in Fiat and other shares linked to the Agnelli group. Trading remained thin and the Comit index was unchanged at 665.32.

Fiat strengthened to L10,345 before closing L8 lower at L10,270, while Ifil, the holding company with links to the French food group, BSN, rose L90 to L8,240. Eridania, the sugar producer, closed L210 higher at L9,000 and firmed to L9,140 in the after-market, after its 1989 results and on reports that sugar prices in Italy would be no longer be controlled by the Government.

Olivetti fell L80 to L6,230 after Mr Vittorio Cassoni, managing director, told Corriere della Sera, the Italian newspaper, that the 1989 dividend would be cut because of reduced profits last year. Investors said that, although Olivetti had fallen from a high of L9,349 in 1989 as well as underperforming the market for the last two years, it was too early to start buying for a recovery. They feared that another price war in the computer industry which would hit Olivetti's earnings again this year.

PARIS woke up after a sluggish start as the domestic bond market strengthened and Wall Street opened higher. The CAC 40 index finished near its best levels, up 22.07 or 1.1 per cent, at 1,946.37. Turnover was about FFr2.5bn, up from FFr1.8bn.

Investors were active buyers of big, liquid blue chips, which many regarded as oversold. CGE, the telecommunications and engineering group, gained FFr8 to FFr584 with 361,100 shares traded; one salesman said that some US investors viewed CGE as an alternative to West Germany's Siemens.

Navigation Mixte advanced FFr98, or 5.2 per cent, to FFr1,998 on speculative buying and in reaction to a meeting between Mr Marc Fournier, the chairman, and COB, the stock exchange commission.

Scoa, the distribution group, dropped FFr1.70 to FFr38.50 after this week's news that Lonrho of the UK had pulled out of a rescue plan.

FRANKFURT rose and fell on political, industrial and corporate news, the end result a 4.64 decline to 1,862.84 in the DAX index as volume rose from DM7.5bn to DM8.6bn.

Early in the day, confidence in the result of Sunday's East German elections combined with a story that East Germany would spend DM5bn to re-equip its telephone system, and Deutsche Bank's news that its 1989 profits growth would outpace the 20.6 per cent gain of the first 10 months.

The FAZ index rose 5.34 to 789.88 at midsession. Siemens was up DM9.30 at DM778 in early trading, topping the day's individual turnover charts at DM1bn. However, confidence turned to concern after the resignation of the East German conservative leader, Mr Wolfgang Schnur, was seen as a blow to prospects of an East German coalition government.

International blue chips reflected the change in sentiment, with Daimler down DM11 at DM690 and Siemens unchanged at the end at DM768.70. Deutsche Bank held out for a DM5 rise to DM763.

Meanwhile, Tuesday's promise by the West German Chancellor, Mr Helmut Kohl, that East German small savers can exchange their savings into D-Marks at a one-for-one rate was seen as negative for the economy, as it could fuel inflation, and positive for retail sales growth; Karstadt rose DM13 to DM656 and Horten DM7 to DM324.

Feldmühle Nobel fell back DM5 to DM565 after a sequence of gains. After hours it announced a DM325m rights issue. Merrill Lynch, mentioned in the market in connection with the recent rise in the shares, reiterated yesterday that it was investment adviser to a group of shareholders owning 20 per cent of the Feldmühle stock, not a principal.

AMSTERDAM rose for the third day running, but profit-taking set in later in the day. Volumes were still low and most of the activity was professional as opposed to institutional. The CBS tendency index rose 1.2 to 114.5.

News that the central bank had cut its special advances rate to 8.2 per cent from 8.3 per cent also helped the market.

Philips rose Fl 1.10 to Fl 42.90 and traders expected the stock to recover further after bottoming out at Fl 40 recently. Hunter Douglas rose Fl 3.50 to Fl 106 before its results today.

MADRID was hit by a higher-than-expected inflation figure of 0.6 per cent for February, compared with predictions in the 0.3 to 0.4 per cent area; but shares then met with local support and regained some lost ground.

The general index closed 2.67, or 1 per cent, down at 269.58 in modest turnover estimated at Pta10bn, similar to Tuesday's level.

STOCKHOLM focused on Astra, the pharmaceuticals group, as the Affärsvärlden general index shed 3.7 to 1,141.6. Astra saw its free Bs climb SKr15 to SKr400 while its free As put on SKr20 to SKr395 in active trade, after a recent favourable company analysis.

OSLO achieved a record high for the second successive day with the market's strength firmly underpinned by shipping stocks. The shipping index rose through the 1,000 level for the first time, closing up 19.07 at 1,006.95. Bergesen Bs added NKr4 to NKr440.

The all-share index climbed 4.11 to 642.65 in active trading worth NKr755m.

ZURICH professionals said that both domestic and foreign investors were ignoring the Swiss equity market, where the Crédit Suisse index slipped 2.4 to 601.9 from 604.3.

ASIA PACIFIC

Recovery in yen fails to improve sentiment

Tokyo

A MODERATE recovery in the yen failed to lift sentiment, and share prices tumbled further on selling by specialised investment trust funds and arbitrageurs, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average fell 266.44 at 32,352.13, taking its decline over the past three days to five per cent. Declines led advances by 789 to 206, with 129 unchanged. Turnover rose from 422m to 489m shares, the broad-based Topix index fell 36.40 to 2,420.70 and, in London, the ISE/Nikkei 50 index fell 2.05 to 1,738.91.

The market kept a nervous eye on interest rates, looking to the return from Europe today of the Bank of Japan Governor, Mr Yasushi Mieno, and Friday's announcement of February money supply growth as potential occasions for action on monetary policy.

There were reports that institutional investors were liquidating their specialised investment trust funds. The extent of liquidations could not be confirmed but a large number of institutions were opting to transfer funds into the short-term market where rates now exceeded 7 per cent.

Steel stocks fell again on the back of selling by specialised investment trust funds. Nippon Steel, the most actively traded with 14.7m shares changing hands,lost Y17 to Y606. Nippon's forecast of a 24 per cent rise in pre-tax recurring profits for the year to March 1990 is not seen to be enough to offset its sensitivity to interest rates and currency fluctuations. Kawasaki Steel lost Y31 to Y642 with 12.8m shares traded and Kobe Steel fell Y19 to Y726 on volume of 12.4m shares.

Securities firms weakened on prospects of lower commissions and increased cancellations in equity financing because of the gloomy outlook for the stock market.

Some smaller stocks bucked the trend, with Pioneer, the consumer electronics company, surging Y100 to Y6,510. Issues which could benefit from increased government spending on infrastructure were also popular. Sato Kogyo, a medium-sized construction firm with expertise in building tunnels, rose Y50 to Y2,180 in active trading.

Widespread selling in Osaka took the OSE average down 536.05 to 35,046.16. Volume rose from 98m to 126m shares.

Roundup

TOKYO'S shakiness continued to cast a gloomy cloud over most leading markets in the Asia Pacific region. However, Manila took heart from the popularity of a new issue.

AUSTRALIA recovered from early lows to end mixed. Turnover was steady at 84m shares and A$174m, against 72m and A$173m. The All Ordinaries index shed 2.0 to 1,558.6. Losers led gainers by almost two to one.

The afternoon comeback was led by banks.National Australia Bank and Westpac finished 2 cents higher at A$6.16 and A$5.16 respectively. But ANZ lost 4 cents to A$5.16. The closing of the Elders IXL deal with GrandMet took the former up 10 cents to A$2.15.

HONG KONG eased for a seventh consecutive session, the Hang Seng index falling 6.39 to 2,881.23 in turnover of HK1.15bn compared to HK$1.25bn on Tuesday.

The loss was mainly due to selling of Hongkong Bank, the territory's leading financial institution, which shed 10 cents to HK$7.30. The selling was prompted by some disappointment over Tuesday's results.

MANILA finished higher in active trading, with investors encouraged by the performance of the newly-listed Saniwares, which rose 4 pesos to 42.50 pesos. The composite index rose 22.85 to 1,084.07.

THE KUALA LUMPUR stock exchange said yesterday that 49m shares have been classified as "lost" after an audit of stockbroking companies.

Nik Din Nik Yusof, the KLSE executive chairman, said that the value of the missing shares could not be estimated exactly: "But it is not M$200m as speculated, as most of the shares were second-liners, and I strongly believe that these are still in the system."

He said that an audit of the exchange's clearing house and stockbrokers had found that scrip short-delivered to members numbered 75,000, while excess delivery accounted for 26,000. Scrip are pieces of paper representing 1,000 shares each.

"That leaves 49,000 missing and they could be anywhere," he said. He assured investors that if the scrip were not found, they would be replaced.

The problem arose from a surge in trading volume between last December and February, straining the system's ability ,to cope. Average daily volume rose from 62m shares in December to a 213m peak on February 6, falling to 35m earlier this week.

From June 1, all stockbroking firms will be required to have a minimum paid-up capital of M$20m. Analysts said the majority of Malaysia's brokers have less than M$5m paid-up capital.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MARCH 14 1990						TUESDAY MARCH 13 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	133.64	+0.4	127.70	120.75	−0.1	5.71	133.08	127.01	120.81	160.41	128.28	135.63
Austria (19)	268.83	−0.2	247.63	239.05	−0.5	1.11	269.48	249.63	240.28	276.84	92.84	102.90
Belgium (61)	140.89	+0.0	123.76	123.69	−0.3	4.52	140.94	130.56	124.08	160.02	125.58	131.41
Canada (120)	143.40	+0.3	132.09	121.90	+0.0	3.31	142.94	132.41	121.87	154.17	124.67	135.33
Denmark (36)	255.93	+0.7	235.75	228.08	+0.4	1.41	254.22	235.49	227.16	260.82	165.36	168.49
Finland (26)	140.74	−1.6	129.64	119.31	−1.8	2.44	142.99	132.46	121.46	159.16	118.63	142.44
France (125)	150.08	+1.1	138.24	136.25	+0.8	2.76	148.41	137.48	135.14	157.97	112.57	115.59
West Germany (96)	129.46	+0.8	119.26	115.33	+0.7	1.84	128.39	118.95	114.54	137.01	79.56	84.64
Hong Kong (48)	118.47	−0.2	109.13	118.81	−0.2	4.93	118.70	109.95	119.03	140.35	86.41	130.43
Ireland (17)	185.03	+1.9	170.44	167.88	+1.7	2.50	181.49	168.12	165.10	198.57	125.00	143.98
Italy (96)	93.81	+0.5	86.41	88.56	+0.2	2.59	93.34	86.47	88.36	102.11	74.97	78.71
Japan (455)	151.39	−1.5	139.45	145.65	−1.7	0.56	153.71	142.38	148.17	200.11	151.08	188.46
Malaysia (36)	234.66	−0.5	216.16	245.19	−0.5	2.19	235.85	218.48	246.35	245.32	143.36	159.80
Mexico (13)	402.48	−0.1	370.74	1161.73	−0.1	0.45	402.88	373.16	1162.76	408.41	153.32	163.72
Netherland (43)	136.49	+0.8	125.73	120.17	+0.7	4.01	135.40	125.43	119.36	145.66	110.63	116.81
New Zealand (18)	63.83	+0.3	58.79	57.66	+0.0	6.03	63.61	58.92	57.67	88.18	61.98	70.80
Norway (24)	243.30	+0.2	224.11	218.37	−0.2	1.54	242.76	224.87	218.70	245.66	169.92	170.43
Singapore (26)	192.96	−0.3	177.74	166.66	−0.5	1.75	193.63	179.37	167.44	199.38	124.57	147.04
South Africa (60)	190.52	+0.2	175.50	171.74	+1.5	3.43	190.07	176.07	169.23	251.39	115.35	139.77
Spain (43)	144.94	−0.6	133.51	120.78	−0.9	4.35	145.79	135.05	121.87	169.75	143.14	147.46
Sweden (35)	176.18	+0.7	162.29	161.31	+0.4	2.41	174.93	162.04	160.66	206.95	138.45	158.09
Switzerland (62)	91.52	−0.3	84.31	86.59	−0.4	2.17	91.84	85.08	86.97	99.12	67.81	75.97
United Kingdom (306)	145.69	+0.7	134.20	134.20	+0.1	4.85	144.69	134.03	134.03	164.31	133.28	152.19
USA (541)	136.25	+0.2	125.51	136.25	+0.2	3.50	135.97	125.95	135.97	146.29	112.13	120.74
Europe (989)	136.43	+0.6	125.67	123.32	+0.3	3.63	135.57	125.59	122.97	146.66	112.63	119.94
Nordic (121)	189.12	+0.5	174.21	164.12	+0.2	1.89	188.16	174.29	163.77	201.89	157.95	148.26
Pacific Basin (667)	149.74	−1.4	137.93	143.64	−1.6	0.86	151.86	140.68	145.97	194.72	149.74	183.84
Euro−Pacific (1656)	144.71	−0.6	133.30	135.89	−0.9	1.88	145.63	134.90	137.10	174.18	141.56	158.30
North America (661)	136.58	+0.2	125.81	135.35	+0.2	3.49	136.29	126.25	135.08	146.66	112.79	121.51
Europe Ex. UK (683)	129.11	+0.6	118.93	116.30	+0.4	2.71	128.35	118.89	115.86	135.73	96.30	100.12
Pacific Ex. Japan (212)	129.41	+0.1	119.21	117.17	−0.1	4.98	129.26	119.74	117.34	140.05	111.93	128.35
World Ex. US (1849)	145.25	−0.6	133.80	136.11	−0.8	1.96	146.11	135.35	137.24	173.77	141.49	157.82
World Ex. UK (2084)	140.54	−0.4	129.46	136.22	−0.5	2.23	141.14	130.75	136.97	162.00	136.98	142.27
World Ex. So. Af. (2330)	140.68	−0.3	129.59	135.75	−0.5	2.46	141.14	130.75	136.42	161.84	136.67	143.16
World Ex. Japan (1935)	137.03	+0.4	126.22	131.18	+0.2	3.66	136.53	126.47	130.88	146.52	114.51	121.43
The World Index (2390)	140.98	−0.3	129.87	136.00	−0.5	2.47	141.44	131.02	136.65	162.05	138.86	143.14

Mexican prices were not updated on March 13 1990.

SECTION IV

FINANCIAL TIMES SURVEY

Though dominated by manufacturing more than most UK cities, Coventry is now a sought-after location for service industries moving out of the south-east, writes Stewart Dalby. The mood of optimism, which has accompanied the fall in unemployment, persists

Coventry Cathedral

Photographs for this survey: Alan Harper. Editorial production: Gabriel Bowman

COVENTRY

Prize-fighter comes back

THE RELOCATION of industry in Britain has become a very competitive business.

Most provincial towns and cities have economic development units, new town or urban corporations vying to attract footloose or expanding companies that are fed up with over-crowded, expensive London.

Provincial towns usually offer three main draws. They have excellent communications, labour is available and there is cheap land and reasonably-priced housing.

Most local authorities have well-rehearsed arguments about the marvellous quality of life their towns offer, access to countryside, plenty of culture, car parking etc. There are often more capricious factors. Mr Chief Executive can moor his boat. Mrs Chief Executive likes the shopping or Master Chief Executive has an excellent local school to go to.

Usually, however, it is communications, land or labour which swing the day. If any or all of these facilities are absent, then a local authority usually has to throw money at companies, as in the Highlands and Islands or parts of Wales.

Among the determinants are good communications. Accordingly, every development authority has a map showing it not just the centre of England but of the western world.

Coventry's map, as officials at the Department of Economic Development point out, shows it is the city closest to the geographical heart of Britain in an east-west context and virtually at the north-south mid-point of England, at least in terms of the main population points.

It is at the centre of the country's motorway network with close links to the M1 through the M69. When the M40 is finished in 1991, it will form a rival to the M4 as one of the country's main industrially strategic arteries.

Coventry is the part of the Midlands closest to London and the south-east, if Milton Keynes is excluded. It is 100 miles from London as the crow flies and 70 minutes on the fastest train.

The city is only 15 miles from the rapidly-growing Birmingham airport, with its good links with Europe and it is significantly closer in travel time than the rest of the Midlands to the east coast ports of Felixstowe and Harwich.

So the communications argument is sound. For what other reasons has the city become a serious contender in the relocation stakes?

In its recent history Coventry can be likened to a prize-fighter which has repeatedly been knocked down, only to realise that in retrospect there is some gain in being flattened.

Heavily damaged during the Second World War by the German bombing blitz, Coventry was redeveloped with a ring-road system that actually works. In comparison with such towns as Reading, Cambridge and Bristol which are choked with traffic, Coventry is hardly congested.

Not only does Coventry have good external communications; it is well laid out, with industry out of the centre.

When the city got back on its feet in the 1960s, it did so in a dynamic fashion. It became a heavy manufacturing town with virtually no service industries: those were concentrated in Birmingham. There was low unemployment, a high proportion of working wives and above-average incomes. More than two thirds of the population (which today is 310,000, making Coventry one of the UK's 10 largest towns) owned their own homes in the 1960s.

But the undue reliance on manufacturing in general and the motor car industry in particular was shown in the recession of the early 1980s.

As Mr Harry Noble, head of the Department of Planning and Development, puts it: "Whereas other towns were let down gently, Coventry went over the precipice virtually overnight."

Unemployment, which in 1979 was comfortably under 5 per cent, was officially put at 20 per cent by 1981. Mr Noble admits that actually it was higher. At least 58,000 jobs were lost in under three years. The motor-cycle industry almost disappeared and the motor-car industry drastically shrunk. The old British Leyland at one point employed 27,000 people alone.

For most of the 1980s, unemployment remained high. By the last quarter of 1989 it was 8.4 per cent, more than a percentage point above the national average. It is probably down to just over 7 per cent now, still higher than the country as a whole. The Economic Development Unit was not formed until 1986, and has been struggling to catch up with other towns.

One legacy of the battering which Coventry took in the recession however, has been that it had a pool of skilled labour. Much of the town's workforce was immigrant labour: Irish, Scots and then Afro-Caribbean and Asians. But unlike Luton, say, they developed a certain civic pride and loyalty to Coventry. The population did not drift away.

A skills audit undertaken by the Institute For Employment Research, University of Warwick found that among other things:

- The population of Coventry is better qualified than the national average, particularly with regard to higher level education.
- Labour is still available in Coventry, and at a time when skills shortages elsewhere pose constraints on companies, this is important. Moreover, the labour is comparatively cheap. Often in manufacturing, it is no longer heavily unionised. In the newer service industries which are beginning to appear in the city, employers do not have to pay London weighting. This means that wage rates can be 20 per cent below those in the south-east.

But if the city had the labour, it did not have the land. One problem was that Coventry city had been part of the West Midlands metropolitan colossus which included Birmingham and the Black Country. When this was broken up in 1986, Coventry found itself out on a limb with tightly-drawn boundaries. By the mid-1980s, Coventry proper had only 20 acres suitable for industrial development.

Labour-dominated Coventry has thus had to deal with Conservative Warwickshire, and in particular convince the county council it is not going to implant grimy industrial sites on its greenbelt land.

In trying to liberate land for industry Coventry has had two big successes in the University of Warwick Science Park and the Westwood Business Park. Both are on the city's boundary, and both are nearly full. The high quality of building on these two estates has been a compelling argument for further development. The economic development department estimates that a further 400 acres of business land will come on stream in the next few years. Coventry has obtained intermediate development status and so qualifies for EC funding, which will be a help in building the infrastructure.

Coventry's slow recovery from the 1979-81 recession has been partly due to a shake-out and restructuring of the old established industries. GEC-Plessey Telecommunications now employs 4,000 whereas GEC once provided work for 16,000. However, with Jaguar, which employs 10,000, it is still among the largest private sector employers.

Despite diversification, there are those who say that there is still an unhealthy dependence on engineering, and that the employment base is too fragile for comfort. With 40 per cent in manufacturing, that is still more than twice the national average. However, people in Coventry seem sanguine that Ford, which took over Jaguar, is not going to reduce production or jobs.

But Peugeot-Talbot, another large employer with 4,000 on its payroll, operates what is for all intents and purposes a screwdriver operation just outside the city boundaries, or to put it more prosaically, is part of an integrated international operation.

Other large employers, Rolls-Royce, Courtaulds, Dunlop, Massey-Ferguson and Rover all work nationally or internationally. Of these, only Rover has its head office in Coventry.

All this makes Coventry appear vulnerable to a downturn in the economy. Bearing that in mind, Mr Harry Noble and his team at the Economic Development Unit have sought not just to pack the science and industrial parks with diversified high-technology companies, but also to gain well-known service company relocations from London.

Great efforts have been made to diversify the economy and new companies including Barclays Bank have decided to relocate in Coventry.

Of more than 6,000 net new jobs brought to the city since 1986, 33 per cent are in finance, 27 per cent in the general office sector and only 20 per cent in manufacturing.

Extension of the economic base is all part of an attempt to ensure that, if the national economy goes into decline, this time Coventry will not be found dangling on the ropes.

CONTENTS

Jaguar's production line at Browns Lane and (right) Mr Geoffrey Whalen, managing director, Peugeot-Talbot, at Ryton; both companies have long been connected with Coventry, but what will happen in the next decade?

Robert Waterhouse looks at prospects for Jaguar and Peugeot

Where angels fear to tread

THE CONNECTIONS of Jaguar and Peugeot-Talbot with Coventry go back to the very origins of the motor industry, yet Coventrians are sceptical of the two companies' commitment over the next decade, let alone the next century. Their doubts relate to the volatile nature of car manufacturing, inexorable rationalisation, and the fact that control of both lies outside Britain.

Ford's £1.6bn acquisition of Jaguar last November, when Mr Nicholas Ridley suddenly freed the Government's "golden share" in the company, has opened up questions not so much about the survival of the marque but the role Coventry will play in its development.

Ford plans to triple Jaguar production to 150,000 cars annually by the turn of the century. The logic for such thinking – when the US market in luxury cars remains soft – comes from the entry of two major Japanese contenders, the Nissan Infiniti and the Toyota Lexus. Ford reckoned it was cheaper to buy an established presence than start from scratch, and fully intends to exploit Jaguar's considerable market presence in the US (18,967 sales in 1989), the UK (14,243) and continental Europe (8,198).

Given the spur for growth, and the seriousness of Ford's investment, how well can Coventry respond – and will it be given a chance?

A recent sector analysis by Paul Lovejoy and Iain Mackie of the West Midlands Enterprise Board suggests that because Jaguar's final assembly and engine-making facilities remain "relatively inefficient," rationalisation might transfer engine production to a Ford plant (say Bridgend) and final assembly to a new site near the Castle Bromwich pressings plant. Coventry would be left with a headquarters, R&D and marketing role much like Rover at Canley.

Productivity has been the recent salvation of Peugeot-Talbot

Jaguar is understandably concerned to dampen such speculation. The company remains, after all, Coventry's major employer at about 9,000.

Mr David Boole, director of communications and public affairs, says that the Jaguar marque is inextricably linked to Coventry, but he cautions there is no open cheque book. Recent investment has indeed concentrated on Castle Bromwich, with £40m in robotic assembly and materials handling; some £4m went to the Radford engine plant and £1m to Browns Lane.

During the negotiations with Ford, Jaguar extracted commitments over continued production in the West Midlands. Mr Boole believes Browns Lane and other plants will thrive by proving, and improving, efficiency. There is a precedent: in 1980 1.3 cars were produced for each employee; by 1989 this had more than tripled to 4.2 cars.

Productivity, too, has been the recent salvation of Peugeot-Talbot activities at Stoke and Ryton.

When PSA, the French parent company, took over from Chrysler UK in 1978, it inherited some 25,000 employees. These dwindled to just 5,000 but have grown again to about 7,500 with the success first of the Peugeot 309 and more recently the 405, assembled at Ryton. Some 123,000 cars were completed last year, compared with just 20,000 in 1984. A night shift was reinstituted at Ryton during April 1988 for the first time in 15 years.

Locals tend to dismiss Ryton as a screwdriver operation. But Mr Richard Parham, Peugeot-Talbot's deputy managing director, says that it is PSA's most important assembly plant outside France, and that some 68 per cent of each car's value is supplied by UK-originated components, materials and services.

Over half of the 405s leaving Ryton are exported, principally to France and Belgium. Mr Parham believes they are indistinguishable, in quality terms, from the cars built at Sochaux.

The British fleet market, where the 405 has a small but important share, is Peugeot-Talbot's anchor in the UK. But Ryton's future will depend on how well it competes for productivity and quality with four other PSA assembly plants across Europe. It is something that British management takes every available opportunity to press home to the workforce. However, analysts suspect that the PSA's investment decisions depend on wider issues than proven UK quality.

In European terms, PSA ranks ahead of Renault, Ford and General Motors. Several successful years make it susceptible to market swings. The Lovejoy-Mackie West Midlands Enterprise Board sector review suggests that Ryton could be PSA's most vulnerable plant if market share is lost during the 1990s to the emerging British-built Japanese models.

Were Peugeot-Talbot to announce another line at Ryton – the subject of much local speculation – observers would feel happier about the company's long-term commitment. Mr Parham, while not being drawn on the subject, believes that Ryton faces a solid future. "We have stabilised, we are growing and we have ambitions to grow further," he says. Losses of £300m between 1978 and 1983 plus a £200m investment by PSA are being repaid out of profit. He is confident that PSA will take a positive investment, on the recommendation of the UK company, when the time is right.

Vehicle component manufacturers are big business in Coventry and Warwickshire (the sub-region includes the Leamington-Warwick-Stratford axis as well as Nuneaton and Bedworth). A recent survey by the Coventry-based Research Partnership reckons that about half of the 42,000 people employed in the vehicle industry work in the supply sector. Its value is estimated at £700m annually, characterised by middle-sized companies with turnovers of around £10-12m employing about 200 people.

The impending arrival of multinational components groups

These companies, of course, supply both Jaguar and Peugeot-Talbot, but Rover and Ford are the major clients by far, with General Motors well in the frame and Nissan also showing. But perhaps it is disturbing that component supply is largely for domestic markets. Of continental manufacturers, only Volvo figures in any strength.

The product range of these companies is enormous. Taken together, they supply almost everything for any part of the process. In other words, vehicle manufacturing is alive and well and living in small pieces throughout Coventry and Warwickshire.

All of which seems to reinforce the suggestion by Professor Keith Cowling, of Warwick University, that the sub-region needs a development plan to pull components manufacturers together, specifically to meet the challenge of Toyota at Burnaston. One first step to this is the establishment of a components research worker at the Motor Industry Local Authority Network at Warwick University.

But the impending arrival in Coventry of multinational components groups such as Reinshagen suggests that continental industry analysts have already identified the West Midlands as an important growth area. Will it once again be a question of letting others in where we ourselves fear to tread?

COMMUNICATIONS

London is not too far away

MOTOWN HAS a roads problem. It revolves around the elevated inner ring road, the Ringway, pride of Coventry in the 1960s and 1970s. The Ringway acts perfectly well as a circulatory route, once you have understood that traffic joining and leaving crosses the same game line. But the Ringway has imposed a concrete clasp on a city centre struggling to expand and diversify. And it is ill-served by radials from the magnificent highways which encompass Coventry – M6, A45, A46/M69, M42 and the soon-to-be M40.

Mr Jack Simpson, Coventry's City Engineer, admits the problem with disarming frankness. East-west radial routes which once figured largely on the plans of his predecessors have been scrapped. They are too costly (not being trunk routes, they have to be locally funded) and they would cause unacceptable demolition of shops and housing to build.

The alternative is a typical English muddle: heavy traffic, some of it serving important industrial sites, fighting its way through shopping streets and residential areas as on the A4600 Leicester route. Once you leave the Ringway, with its panoramic views of the city centre, you are back in the pokey, dangerous but much more human street-scene of a Midlands town.

Individual schemes to iron out bad corners or flyover major obstructions like the London-Birmingham main railway line at Canley are included in the city's current Transport Policies and Programme. Among the more controversial proposals is the Coundon Wedge Road, a £3.7m highway to provide new access to Jaguar's Browns Lane plant. The line was confirmed last April following a public inquiry, but local feeling still runs high over intrusion into unspoilt countryside so close to the city centre.

One new road, opening up important industrial areas, is firmly in the programme. Work on the North-South Route, running from the Foleshill-Holbrooks bypass to a point south-east of the city centre where it joins the A4114 London Road, is due to start next year. The first phase at least will be part-funded by the EC National Programme of Community Interest sources. This £31.5m road, mainly following disused railway track, has been planned and protected for a quarter of a century.

Mr Simpson accepts that roads in themselves are unlikely to provide solutions to Coventry's transport problems. Attitudes to the car are changing even in a city where most people have some connection with the industry. Unemployment of the early 1980s tipped some onto public transport for the first time, and poor mobility came as a shock.

He advocates a policy of restraint on the private motorist, defining user networks, cutting out rat-runs, and managing traffic flows on the basis of 1990 levels. "There is no alternative to balance," he says. "The problem lies in producing a strategy which is publicly acceptable."

The public transport alternative is not very inviting. Compared with roads over the past 20 years, investment has been minimal. A limited park and ride system introduced because a city centre car park was unavailable has proved successful and may well be maintained. Coventry's bus services are provided by the West Midlands Passenger Transport Executive through precept. Plans to redevelop Pool Meadow bus station are in hand. The most exciting proposal is the inclusion of Coventry as an integral if self-contained part of the Midlands Metro light rapid transit system.

Present evaluation suggests that two of the proposed Coventry routes – Binley Road and Stoke Heath – are likely to attract many users and should make operational surpluses. The other two routes – Eastern Green and Warwick University – are projected to make slight losses. The four routes would have the advantage of providing relatively low-cost radial alternatives to car use, and would join Coventry BR station, the bus station and the city centre together by on-street running.

Radial roads apart, Coventry's links with the outside world are hard to fault. Birmingham International is just 11 minutes away by train and perhaps 20 by car. The airport, already a hub for European flights, is expected to develop long-haul scheduled services in competition with Heathrow and Manchester now that government restrictions on gateway airports have been lifted.

Coventry also has its own small airport, owned by the city council and used mainly by club or executive aircraft. Ryanair flies to Knock and plans to add a daily Dublin service. There are also flights to Amsterdam. Freight services using Coventry Airport are expected to benefit from any relaxation of inter-Community customs restrictions following 1992.

The city does not – like some competitors further north – fear the arrival of the Channel Tunnel. Direct Continental rail services from the north-west and the West Midlands are due to be consolidated at Rugby, only a few minutes away. Coventry sees itself strategically placed to attack European markets.

If there is a weakness in the surrounding roads network, it is the link with Southampton and Portsmouth. This will change when the M40 reaches Oxford and points south. Other motorways are due to be widened to four lanes in each direction, though peak-hour loads on the M6 will remain very heavy.

Any effects of an M40 corridor – restricted by Green Belt policies – are more likely to be felt in Warwick, Leamington Spa and Kenilworth, all important parts of the sub-regional economy. House prices, already high there, will receive a boost which could have a knock-on effect on Coventry's southern and western suburbs.

A major reason for the city's success in attracting relocation from London and the south-east is its half-hourly electrified rail service to Euston. Coventry is just 100 miles up the line and the fastest trains take little over an hour. When needs must, Coventry is an excellent place from which to depart.

Robert Waterhouse

SERVICE GROUPS

The big names are moving in

BY THE end of the 1960s, many large service groups were seeking to flee from expensive, congested London. Equity and Law Life Assurance Society looked at Bristol, but decided against it as Clerical and Medical had already gone there. Eagle Star went to Cheltenham. Guardian Royal Exchange was in Ipswich. The feeling was these companies would mop up the pool of available clerical workers in those towns.

So Equity and Law moved a substantial part of its operation to High Wycombe. But by the early 1970s, this Buckinghamshire town also began to develop London-type problems – planning restrictions imposed a physical limit on the company's growth and it became difficult to find staff. Then, Equity and Law started to look further afield.

That was how it chose Coventry. It was a little different from the other insurance companies' sites. For Coventry had very few service groups. There was an emphasis on heavy industry.

According to Mr Brian Emery, assistant general manager: "There was no significant clerical employer of any kind."

Against that, land for building was cheap. Even though the Coventry move might have seemed rash, the company felt the absence of direct competition for workers could be turned to its advantage.

Coventry was, initially at least, to be a back office operation and there would little difficulty in finding the small staff numbers needed. Starting off with 90 employees, Equity and Law now employs 580 people in Coventry out of a staff total of 2,100. Some 70 remain in the office in London in Lincoln's Inn Fields, and around 780 are still in High Wycombe, although numbers there are falling.

Mr Emery says that the company, which is now part of the French Axa-Midi group, is delighted to be in Coventry.

"It is a good place to be, you can get to London for conferences easily. And you can get into the office easily. Coventry city centre is not congested," he says.

The company, which has funds under management of £4bn (life, pensions and investments) is expanding its office building in Coventry so that it can employ 1,000 if it wishes. It has also built a two-storey car park.

Staff turnover has been low. But Mr Emery says he has noticed that in the past year, turnover has been creeping up.

This could have something to do with the fact that in the past two years Coventry has become a fashionable place for service company relocations. Barclays Bank, the Royal Society of Arts, the Land Registry and the Department of Transport have all started operations in the city.

Well, not in the city centre itself. Few new arrivals will emulate Equity and Law and find a city centre site. There is little available.

Many companies have chosen Coventry because of the Westwood Business Park. Not only does this have good access to the motorways and is close to the university, it is purpose-built for service-type companies. The environment at Westwood was crucial in the Royal Society of Arts decision to move to Coventry.

Mr Martin Cross, chief executive of the RSA, says: "In other places we looked at, we invariably found we would be sandwiched between a multiplex cinema and a noisy factory making rubber goods or something. This did not suit us at all."

The benign business environment at Westwood also influenced Barclays Bank's decision to move eight head office operations from London to Coventry. Through its agents, Barclays had been looking for some time at the Midlands area.

Ms Julia Johnston, at Barclays in London, says the bank has an operation in Knutsford in Cheshire and in Poole in Dorsey, so it wanted somewhere in between.

It has become a fashionable place for company relocations

Land is cheaper in Coventry than in the south-east and even other parts of the Midlands. Barclays liked the site at Westwood. But it was also attracted by the fact that labour would be available.

"We were given assurances by the Development Department in Coventry that we would be able to fill the vacancies," Ms Johnston says.

Coventry continues to have a higher unemployment rate than the rest of the country. It is now probably around 7 per cent, compared with a national average of just under 6 per cent.

Barclays activities in Coventry will involve 700 jobs. About half this total will be moving from London in the next couple of months. Barclays set up a job centre in Coventry and has now filled the other 350 jobs.

Mr Roger Davies, recruitment officer for Barclays, says he was mildly surprised by how smoothly the hiring went.

"I was beginning to get fretful when I saw unemployment dropping so sharply. But it has all gone very well. We have hired people from right across the spectrum. These include school-leavers and 50-year-olds who have shown up at our job centre."

As more and more service companies realise the advantages of Coventry – it remains cheap in terms of land and labour – pressure on wages will inevitably creep upwards.

But that seems unlikely to happen over the next couple of years. And, as more service companies arrive, the skills level of the workforce will rise. Almost certainly, Coventry has not seen the last of the big name national companies

Stewart Dalby

KEY FACTS

Population 310,000
Employment .... at least 128,000
Unemployment (third quarter 1989) .... 8.4 per cent
6.3% (travel-to-work area) 6.2% (West Midlands area)
.... 6 per cent (national figure)

Distances from Coventry to major UK cities:
Birmingham .... 18 miles London .... 94 miles
Bristol .... 103 miles Manchester .... 107 miles
Cardiff .... 125 miles

Major industrial companies with a presence in Coventry: Jaguar, Peugeot-Talbot, Rolls-Royce, Dunlop, Rover, Courtaulds.

Companies recently relocated or in the process of relocating in Coventry: Barclays Bank, Royal Society of Arts, Land Registry.

Cost of industrial land .... from £200,000 an acre for B8 or warehousing sites
.... up to £500,000 an acre for B1 or office land.
Rents for B1 accommodation .... £14 a sq ft.
House prices .... £30,000 to £300,000 (travel to work area)

Information on relocation .... Department of Economic Development and Planning at the Tower Block. Tel: (Coventry) 0203 83333.

WHEN IN the mid-1980s Coventry recognised that it had to get new projects to expand employment, it found itself in a catch-22 situation as far as property was concerned.

Heavy dependence on the automotive and engineering industries meant that there was little fully-serviced industrial land readily available for new sunrise or high technology industries, which needed modern B1-type factories.

Indeed, the city had never been a service centre. It was part of the West Midlands metropolitan district, which included Birmingham and the Black Country, until 1986 and so most of the national banks and insurance companies set up in Birmingham, if they set up in the West Midlands at all. There was very little office space available.

Equity and Law, which established itself in Coventry in 1974, was virtually alone of the national life and pension companies in seeing the potential in Coventry and building its own offices.

The absence of a so-called B1 culture meant that developers were not interested in building offices or new factories speculatively because the returns were too low.

This cycle of few new jobs because there were few new

Westwood is growing to 100 acres and the emphasis is on service companies

companies and few new companies because there were few suitable premises began to be broken in 1982 when the Coventry City Council got together with the Warwickshire and West Midlands county councils, as well as representatives of the University of Warwick. They identified a 24-acre site, close to the university, which could be turned into a science park.

Although the interested parties had one eye on the successful science park at Cambridge when they set up their joint company, Warwick University science park developed very differently and more quickly than expected. By 1985, 30 companies had set up on the estate and a second phase of expansion began.

Today the park is a 42-acre site, mostly let on long leases. Many companies have built or are building their own factories. Although the city council continues to own 45 per cent of the land notionally, the university is the driving force behind the park.

By 1986 Coventry had set up its economic development department and Mr Harry Noble, its director, became keen on the idea of business parks. In that year, another 70-acre site, again owned by the city council and adjacent to the science park, was

The Cathedral Lanes development in the city centre

PROPERTY

Parks and a precinct

established. This became the Westwood Business Park and is now being extended to cover 100 acres, with the emphasis on service companies.

Values have crept up to the point where good B1 property is renting for £14 a sq ft. This is still well below parts of the south-east and even areas like Bristol. It is good enough, however, to give developers a sufficient return and they have shown interest in building on the estates. Land now costs between £300,000 and £500,000 an acre, depending on the density of building that can go on it.

For old-style B8 warehousing or sheds, land can still be found for £250,000 an acre and rented for £3 a sq ft. Because of Coventry's location near the motorway network, there is a strong demand for such premises.

The take-up on both the science and business parks has been good. Any companies relocating in or around Coventry should have the benefit of reasonable rates under the new uniform business rate, since rentals have not soared into the stratosphere. The development department has identified a further 400 acres for potential industrial use around the city. The main areas are:

- Ansty Technology Park in the north of the city. This covers 180 acres, where it is hoped to encourage investment from high-technology companies. The site is owned by Rolls-Royce, which will locate a 30-acre development at Ansty.
- Binley Business Park. This is a council-owned development of 42 acres which will complement Westwood Business Park. Binley will be a campus-style office development.
- Coventry Airpark is a 180-acre development. The first phase of 100,000 sq ft development has a total completed investment value of £30m.

Some of these sites are outside the city's limits. When in 1986 the old West Midlands metropolitan council was broken up, Coventry City was left with tightly-drawn boundaries.

The city council has had to come to terms with Warwick County Council, making the

The city's skyline is little changed, but there is a shortage of office space

point that greenfield sites are not the same thing as green belt intrusions. But the county council now sees the value of high quality B1 properties. The eastern by-pass road around Coventry forms an ideal artery for further industrial and commercial clusters.

Because the greenfield sites have been on the periphery, so far the city's skyline has not been radically changed by new office developments. There are one or two projects, such as the Parkside complex on a 14-acre site and the Greyfriars Gate development, which is office space of more than 50,000 sq ft.

However, Mr Peter Holt of Hepper Robinson, a leading local agent, says: "There is a shortage of office space in the city itself, since so little has been built. If a client came along tomorrow and wanted 50,000 sq ft of space, it would be difficult to accommodate him."

As Coventry has started to catch up in terms of industrial and commercial property it is now, like other cities, getting its prestige city-centre shopping complex.

There is a shopping nexus at present called The Precinct. Housing such retailers as Marks and Spencer, Owen Owen and Next, it was built in the late 1950s and early 1960s. It has a dated, some would say rather tired, feel.

Two new developments are under away. One, the West Orchard centre close to The Precinct, will cover 226,657 sq ft of retail space at a probable cost of £60m. This will open in the spring of 1991.

The other development is Cathedral Lanes, which is smaller, probably around 50,000 sq ft, but is in Broadgate, the area adjoining The Precinct and is in the prime site underneath the cathedral, where the buses stop in the centre of town.

This project, which will cost around £10m and has temporarily displaced Coventry's best-known monument, the statue of Lady Godiva, aims to give the city the now fashionable continental flavour with shops, bistros and restaurants. Zone A rents in the complex are expected to be around £55 a sq ft.

In terms of residential property, Coventry saw none of the overheating characteristic until 1988 of the south-east of England and even parts of the Midlands. There has been some catching up recently, but generalising is difficult since there are strong regional variations in values if one includes towns in the Coventry travel to work area. In the south-west, where it may stretch as far as Leamington, the spa town and even Stratford-upon-Avon, the areas are particularly wealthy.

By contrast, some of the northern suburbs are quite rundown. As a rough rule of thumb, it is still possible to get starter homes in some parts of Coventry for £30,000, which remains well below what would be paid in the south-east. There are villages and country towns where good four-bedroomed properties can be found for £150,000, again still a good discount to the south, but the gap is said to be narrowing.

Stewart Dalby

Stewart Dalby on why companies are keen to invest in the city

A good move for many

THE Department of Economic Development and Planning does not estimate how much in money terms has been invested in Coventry in recent years. But it says that since 1986 (when the unit was set up) the total number of net jobs created has been 6,000 and there have been 38 projects in 1988-89 alone.

The pattern has been of setting up small engineering concerns often related to the motor car industry or those parts of it that survived the huge shake-out of the early 1980s. One highly publicised relocation was Reinshagen, the German car wiring company which last November announced it was establishing a plant at a cost of £6m, that would employ 600.

Recently, other high technology companies have established operations in Coventry, in part because of the University of Warwick Science Park which was started in the early 1980s. Companies which have gone there include Automatix, Buehler International, Telemecanique and Olivetti.

More recently still, service-type companies have relocated in Coventry. The Westwood Business Park has attracted a number of relocations including Barclays Bank, the Royal Society of Arts, the Royal Institute of Chartered Surveyors and the Institute of Housing.

GM Fanuc Robotics UK is to move from Colchester to Coventry. This organisation combines the Fanuc Corporation of Japan with General Motors.

The reasons why companies have chosen Coventry are varied. One strong argument which persuaded Barclays was the availability of labour. Coventry has an above-average unemployment level. Barclays is moving eight head office functions to Coventry and needed 700 staff. Half of these jobs will be filled by people moving from London. The remaining 350 have been hired locally, and apparently without undue difficulty.

Other companies cite the good communications. The city is at the centre of England and well-connected to the national motorway system. It is the part of the Midlands closest to London.

The Westwood Business Park has attracted a number of relocations

Mr David Noon, the associate leader of Social Science and Policy Studies at Coventry Polytechnic, says that Coventry still has cheap land compared with the south-east of England, a skilled labour force and a good location in Westwood Business Park.

Barclays is moving eight head office functions and has hired 350 local staff

The benign environment at Westwood was a important factor behind the decision of the Royal Society of Arts, an examination board, to choose Coventry.

The board moved last December and employs 140 people. Twenty-five management staff moved with the company and the rest were hired locally. Ms Leena Kalyanvala, the personnel director, says with the exception of one or two computing-accounting jobs the vacancies were easily filled.

Mr Martin Cross, the chief executive, says that the RSA had two offices, one in London and another in Orpington, where the printing was done. The board was finding it difficult to get staff in London at wages it thought it could afford. But most of all, there was a feeling that the board needed to bring its operations under one roof.

At the same time, since a lot of the board's business involved meetings with the Ministry of Education and other government departments, it did not want to be too far away from London.

A ring was drawn around London, which included anywhere less than 1¼ hours' travel time from the capital.

Bath was rejected because of possible shortages of labour and because office accommodation has become relatively expensive.

Coventry was chosen partly because it is only 70 minutes on the train to London. Mr Cross says: "Our kind of operation with the need for meeting rooms at one extreme and printing facilities at the other is an unusual one. We needed to be in the right environment. We did not want to find ourselves with a metal bashing concern right next door."

He adds: "We were surprised when our agents said nothing was available in Nottingham or Derby. We sent them back for a second look. But we could not find anything."

Mr Cross is very happy with Coventry. He says that, contrary to expectations, the staff who moved with the company have not made a killing on property. Houses are cheaper at the bottom end, but in the kind of market his managers are looking at there is not a great deal of difference.

A lot of people are finding it difficult to sell in London. Prices there have dropped since the peak in 1988, while those in and around Coventry have been catching up.

However, he and his staff have found nicer properties in more attractive surroundings. One of his managers lives in Stratford, which is half an hour's drive.

But the best thing, Mr Cross says, is that people don't have to struggle for hours on run-down tube trains or congested roads. Most of his staff are only 10 minutes' drive away. They can park easily next to the office.

The RSA has secured its office on a 125-year lease. Mr Cross declines to discuss the rent but agrees that it is far cheaper than in London.

Whereas in London, jobs offering £9,500 were attracting one or two applicants, in Coventry 30 to 40 people have applied. Moreover the company found that in London people applied just to get a foothold in London and then moved on when they found something better. In Coventry people look as if they will stay.

The downside of having more service companies move into the area is that competition for jobs will increase and wage levels will be bid up. This has not happened yet, and the advantage is that a corporate culture develops and standards improve.

All in all, Mr Cross feels Coventry has been a good move.

MANUFACTURING

Optimism on output and 1992, but long-term doubts remain

MANUFACTURING continues to dominate Coventry's industry a decade after the shake-out. Some 53,000 jobs disappeared in the dark days of 1979-82, but the big companies, with notable exceptions such as Alfred Herbert, survived. There is now confidence that manufacturing employment has stabilised at about 40 per cent of the workforce, and that Coventry is well-placed to benefit from 1990s markets.

The city's industrial base centres on a handful of well-known concerns. Apart from the motor industry Coventry is an important operating centre for GPT (telecommunications), Rolls-Royce (aero-engine parts and gas turbines), Courtaulds (acetates, carbon fibres, process engineering), Dunlop (aerospace and engineering), Massey-Ferguson (tractor assembly) and Alvis (armoured vehicles). All these companies have reinvested during the 1980s, bringing new technologies to work on new product lines while employing far fewer people.

One reason for today's optimism – as expressed by Mr Carl Pearson, the city's assistant head of economic development, and endorsed by Mr Brian Willis, director of the Coventry Chamber of Commerce – is a belief that manufacturing output at least equals that of the 1970s. It's a gut feeling, as nobody has yet attempted to assess Coventry's GDP, but seems to be borne out by productivity achievements, such as at Jaguar.

Mr Pearson argues that, as Coventry's big employers tend to belong to transnational groups, they will not be disadvantaged by 1992 – a view shared by Mr Gordon Campbell, Courtaulds board director with responsibility for several Coventry divisions. "Europe has been our home market for 20 years," says Mr Campbell. "1992 should simply ease administration."

The group's central commercial activities, including third party trading with other countries, are co-ordinated from Coventry. There is a special accent on Eastern Europe. Courtaulds Engineering, for instance, is in the throes of negotiating two turnkey projects for acrylic fibre plants in the Soviet Union. Courtaulds is poised to take advantage of recent events, though Mr Campbell expects some commercial hiatus after the speed of political developments.

Coventry is GPT's international headquarters, and at 7,500 employees the company remains the city's major private sector force after Jaguar. GPT ranks eighth in the world telecommunications league; linking GPT with Siemens would create the second most powerful group, but for the moment the two companies – joined by the GEC-Siemens takeover of Plessey – have simply signed a co-operation agreement to integrate product lines.

Is Coventry's performance on the international stage – as instanced by GPT, Courtaulds and others – reassuring for the future? Mr Keith Cowling, professor of economics at Warwick University, has serious doubts. He sees Coventry manufacturers as a microcosm of the British condition. Deindustrialisation, he says, remains endemic below the surface. The country's lack of industrial policy, reflecting a century and more of decline, has not changed despite the trauma of the 1980s. Rentier ownership – most obviously in the car manufacturing sector – brings worries about Coventry as a branch economy, vulnerable to external decision-making.

These are long-term issues. In the short view Coventry seems to be responding well enough to high interest rates and the downturn. Coventry Chamber of Commerce's most recent quarterly survey, garnered just before Christmas, paints a reassuring picture. Both home and export orders were much as in September 1989, like cash flow. Only four of a sample of 50 companies were operating at less than 60 per cent capacity, while 33 were at over 80 per cent. No more companies thought turnover would worsen in 1990 than believed it would improve, though there were some doubts on profitability.

Rentier ownership brings worries about external decision-making

The most worrying response came to a question on recruitment. Almost half the companies said they had experienced difficulty in recruiting suitable labour in the past quarter. The hardest category to fill, by far, was the skilled manual worker.

Mr Willis agrees there are "severe shortages of skilled labour." Recruitment from outside the city is problematical with full employment in the south-east and house prices in Coventry higher than in the North. Big companies, rather than train their own staff or take on unemployed applicants, tend to go for the quicker expedient of poaching from smaller firms.

Skill shortages inevitably raise training issues. Recently, the council commissioned a citywide audit of job skills, which showed (from a total workforce of nearly 90,000) 20,000 males with craft skills and 16,000 with over five years' experience. It is now involved in a survey of manufacturers, asking employers to state what skills are needed. Preliminary results are expected in June for publication this September.

By and large, Coventry takes the task of monitoring its companies seriously. "Concentrating on Coventry," a 1987 study for the city council of the top 100 employers by Paul Field, documented the enormous changes since 1975; "Coventry on-line," by Paul Field and Mike Press, looked at the telecommunications supply industry; Edward Blissett's August 1989 report on industrial relations tends to quash suspicions that well-organised trade unions in the big Coventry companies are more militant than elsewhere.

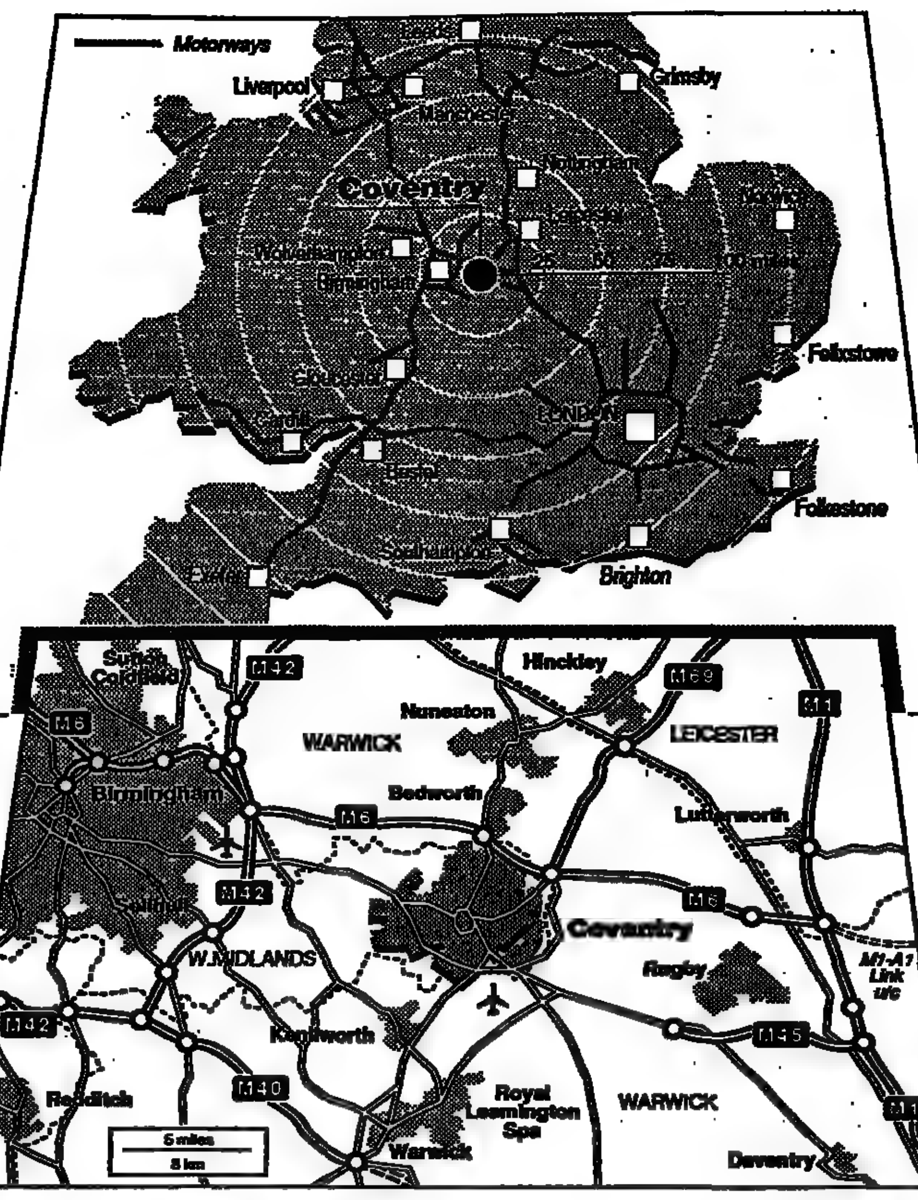
By using sector studies, the council is able to identify problem areas. For example, the challenge facing small and medium-sized companies (Coventry has very few in the second category) to reach new levels of quality, and quality assurance, which will enable them to work with the big operators. High interest rates make it tough for the companies to invest in the necessary systems and training. So the council is creating a loan scheme up to £25,000, aimed specifically at quality assurance measures.

Another challenge is to encourage start-ups in a culture still dominated by big boys. Prof Cowling suggests that potential entrepreneurs from Warwick University and Coventry Polytechnic are drifting away because of the lack of suitable low-cost space and seed-corn finance to get them going. He contrasts the Coventry scene with Gothenburg, where hundreds of graduates from Chalmers University are "staked" each year.

Finding cheap space is also getting harder. The days when back-street, inner city alleyways could be annexed for a few pounds a week have gone. Traditional inner area inhabitants like Rolls-Royce and Alvis are behind the move to outlying business parks but their sites are in demand for commercial redevelopment.

In theory, Coventry needs the major manufacturers more than they do Coventry. But when it comes to the crunch, the links are strong both ways. Courtaulds' Mr Campbell says he could not envisage moving any of the manufacturing facilities, though office accommodation is a different matter. And if companies are making good money in the city, as Mr Pearson believes, why should they want to start again anywhere else?

Robert Waterhouse



TOURISM

Luring the businessman

IT WAS back in the 11th century that Lady Godiva gave birth to one of Britain's favourite legends by pleading with her husband Leofric, Earl of Mercia, to relieve Coventry's townsfolk of the crippling taxes he had levied against them.

Leofric promised to grant her request only if his wife – by all accounts a lady of immense piety – would ride naked through the town's streets. But such was Godiva's compassion that, to his astonishment, she agreed to do just that.

The people, out of gratitude, lined the streets on the day but steadfastly screwed their eyes tight shut – all, that is, but Peeping Tom, who was struck blind for his curiosity.

Today, the world's first recorded streaking incident is commemorated by a statue of Lady Godiva on horseback, normally sited in Broadgate and recalling one of several local legends that have helped bring tourists to the city.

Another that often arouses curiosity is the phrase "sent to Coventry." This stems from the use of the city's 14th-century St John's Church as a prison for Royalist troops defeated by Cromwell in the Civil War.

When the prisoners were paraded through the streets, the story goes, the people of Coventry turned their backs on them, so giving rise to the phrase's present-day sense of being shunned by the community.

Coventry's biggest draw, however, remains its cathedral – or, rather, cathedrals, since little remains of the 12th century edifice burnt almost to the ground during a bombing raid in the Second World War.

Alongside the old cathedral stands Sir Basil Spence's attempt to recreate its grandeur in a new cathedral consecrated in 1962. The juxtaposition of the two constitutes a moving plea for peace while simultaneously acting as a symbol for Coventry's resurrection from the wartime rubble.

Coventry, then, has strong links with history. Post-war reconstruction, however, has left it essentially a modern industrial city with only a sprinkling of attractions for the casual visitor, and a lively imagination has sometimes been a useful attribute among those planning its tourism strategy.

One example is its motto: "The city in Shakespeare country." This comes as a surprise to those who had always thought of Shakespeare as coming from Stratford-upon-Avon, until they recall that Stratford is a town, not a city.

The point of the campaign is to put Coventry forward as a cheaper alternative to Stratford as a base for exploring the valley of the River Avon, including the towns of Warwick, Kenilworth and Leamington Spa, and the Cotswolds beyond.

In the city itself, another lure is the Lady Godiva trail that takes visitors on a guided tour of the city centre. Stops along the way include the canal basin in Leicester Row and the Museum of British Road Transport in Hales Street – a collection of 400 cars, bicycles, motorcycles and lorries marking Coventry's strong links with the motor industry.

Coventry is put forward as cheaper than Stratford for exploring the valley of the River Avon

Leisure tourism, though, is not the central plank of Coventry's tourist strategy. Business tourism is the more lucrative area – particularly the meetings market, estimated by the city to be worth £20m a year now and £50m within three years.

At first sight, this might seem odd with Birmingham investing hundreds of millions of pounds in its convention and conference business just 20 miles away. But Coventry boasts the virtue of a central location combined with comparatively low costs.

Ms Sally Deighan, Coventry's marketing manager for tourism and conferences, says a particular objective is to identify Coventry as a more convenient overnight venue for delegates visiting the National Exhibition Centre, halfway between Coventry and Birmingham.

The point is that this brings a wide range of business into the city, such as spin-off meetings related to the exhibitions, product launches and entertainment of business guests.

Coventry is also going for business meetings in their own right, such as training courses, seminars, conferences, corporate hospitality and incentive packages, all of them taking advantage of the central location and wide choice of venues.

Says Ms Deighan: "Hotels in Coventry are up to a third cheaper than equivalent hotels in Birmingham, and parking is easier. Travel to Birmingham International Airport is also more straightforward and quicker.

"By the time the International Convention Centre opens in Birmingham in 1991 and adds to the pressure on hotel facilities there, we want to have persuaded Birmingham users to think Coventry instead."

To this end, more than 600 bedrooms are being added to the 2,300 already available in Coventry in an expansion programme costing about £20m.

Among the key developments, a four-star Hilton Hotel with 200 rooms is being built ready for opening in 1991, and a £5m extension at the Royal Court Hotel will add 81 bedrooms and a leisure club.

Conference centres are sprouting up everywhere, particularly at country hotels. A £6m development is afoot at Stoneleigh Abbey to create a conference hotel and golfing resort; a 100-seat conference suite and 11 more bedrooms are being added at Ansty Hall Country House Hotel; a conference centre is opening at Coombe Abbey, another historic house venue; and 30 more rooms plus a conference suite have opened at Brooklands Grange Hotel, a restored Jacobean manor.

Another significant move is the development over the next 18 months of a 200-room all-year-round management training complex at Radcliffe House, part of Warwick University.

Coventry's tourist attractions are employed to the full in the campaign to market the city's merits as a conference venue. Special packages, too, are on offer, such as mediaeval banquets, country house weekends, hot air ballooning followed by a champagne lunch, and even a murder weekend.

And for executives who want to keep their noses close to the grindstone, the city offers a programme of tours around some of the best-known local factories – Massey-Ferguson's tractor plant, for example, Peugeot-Talbot's car factory or the Carbodies plant that turns out the famous black taxi.

Richard Tomkins looks at arts and entertainment

Culture far and wide

COVENTRY IS a mixed bag where arts and entertainment are concerned. Culture is there if you want it, but you sometimes have to go out of your way.

The largest single concentration of amenities is not, as you might expect, in the city centre, but in the University of Warwick Arts Centre which forms part of the university campus.

Its name might suggest that it is intended only for university staff and students, but this is not so. Now claiming to be the biggest arts complex outside London, it serves a catchment area stretching from Oxford to Birmingham.

The first phase of the centre opened as recently as 1974 with a 575-seat theatre, a 200-seat studio theatre, a music centre, a conference room, a bookshop, and cafes and bars.

A second phase came in 1981 with the opening of a 1,300-seat concert hall, and the third phase followed in 1986 with the opening of a 250-seat cinema, a new bookshop, a sculpture court, and a suite of art galleries.

The main theatre offers a varied diet. Productions so far this year have included the premiere of the English Shakespeare Company's Comedy of Errors, Eleanor Bron in Cambridge Theatre Company's murder/mystery/comedy The Dig, Warwick University Gilbert & Sullivan Society's The Gondoliers, and a touring production of Leonard Bernstein's On The Town.

An excellent programme of fringe theatre, meanwhile, dominates in the studio. The last couple of weeks, for example, have seen Trestle Theatre Company's L'Amfiparnaso, Monstrous Regiment's Love Story Of The Century, David Glass's Popeye In Exile, and the Snarling Beasties' Valentino.

The 50th anniversary of the blitz will be commemorated

The cinema is a showcase for the sort of art house films that rarely get a screening outside London: scheduled for tonight, for example, is Peter Greenaway's orgy of grotesquerie The Cook, The Thief, His Wife and Her Lover.

The concert hall offers a mix of classical and contemporary music, with an especially strong element of jazz, while the gallery provides space for varied exhibitions of the visual arts.

The Arts Centre, then, is an excellent and much-valued resource. It does, however, suffer from one significant drawback. At a distance of 3½ miles from the centre of Coventry, it is not easily accessible from the city: indeed, its natural audience, apart from university students, is drawn predominantly from the car-owning population of wealthy South Warwickshire.

Meanwhile, Coventry proper, in common with most industrial cities of its size, boasts only a modest array of entertainments. It has the Belgrade Theatre, offering a mix of musicals, thrillers, comedy and drama; it has two cinemas showing mainstream films, and a ten-pin bowling alley well outside the city centre; it has a sprinkling of pubs, clubs and restaurants; and that's about it.

The centre of the city can be a soulless place at night. Nobody actually lives there: it consists mainly of shopping precincts, council offices and the polytechnic. Too often the nearest thing to street life is the display of teenage violence that can accompany chucking-out time at the pubs and clubs around the Burges.

The council acknowledges that a thriving city centre acts as an important cultural focus for the community and is encouraging the provision of more amenities.

Mr Tim Healey, marketing officer in the city's leisure services department, says this need not be just a matter of improving the quality of life for the community. It has economic spin-offs, too.

"If we want more inward investment in Coventry, we have to give people incentives to move," he says.

"It's no good trying to convince people to come to Coventry if all they do when they get here is complain that when they were in London, they could go to the National Theatre."

Things are gradually getting better. Evidence of this comes in the form of two initiatives under way, one of them sponsored by the public sector, and the other private.

In the private sector, a local fringe theatre group called Tic Toc (Theatre in Coventry, Theatre of Coventry) has found itself a permanent base in the Orchid Theatre, a former bingo hall in the city centre's Primrose Hill Street.

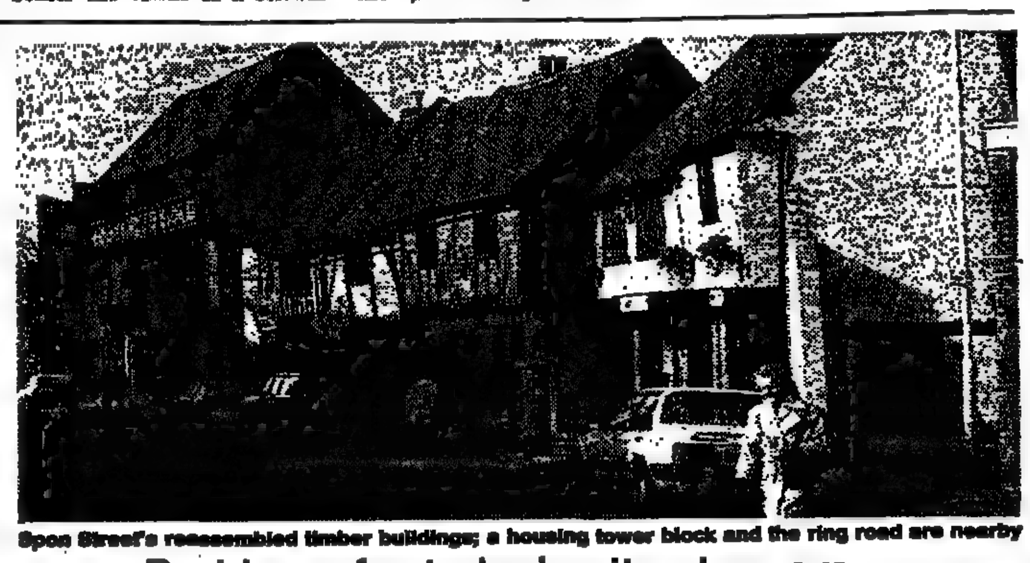
Refurbished as a multi-purpose entertainment centre, the Orchid will provide space not only for Tic Toc's own stage productions and alternative cabarets, but also act as a much-needed venue for live music, theatre, dance, cabaret, conferences and arts workshops.

In the public sector, the city council is talking with three short-listed developers about the possibility of redeveloping a 7½-acre site in the city centre's Fairfax Street at present occupied by the bus station and a multi-storey car park.

The idea is to come up with a new complex which would incorporate not only the bus station and a larger car park, but also a leisure complex with amenities such as a multi-screen cinema, an ice-rink or bowling alley, and a food mall.

That development will take time to reach fruition. But in the meantime, Coventry can offer other attractions.

This year, for example, there will be commemorations to mark the 50th anniversary of the blitz in which the city's old cathedral was burned to the ground. And from July 23 to August 18, the Belgrade Theatre will be reviving its promenade performances of the Coventry Mystery Plays among the cathedral ruins – a marvellous event telling the story of Jesus, performed only once every three years.



Spon Street's reassembled timber buildings; a housing tower block and the ring road are nearby

Problems for today's city planners

The concrete burden

WHEN COVENTRY came to rebuild its war-devastated city centre, many of the surviving timbered buildings were dismantled or demolished. Medieval streets disappeared to make way for precincts planned by the city architect, Donald (later Sir Donald) Gibson. His successor Arthur (later Professor) Ling designed many of the new landmarks. Between them they transformed haphazard, historic Coventry into a wholly replanned modern centre with due deference to Socialist and garden city ideals.

It would have not been possible without the blitz of 1940, which struck at Coventry industry close to the city centre. Within weeks of the air attacks, the authorities started planning for the future. But Coventry was not just another industrial city. It was the oldest and richest Midlands centre long before the motor-car arrived. During the 14th century Coventry ranked after only London, York and Bristol. That heritage had, it seemed, outlived its time.

When the war ended, Coventry proudly unveiled Sir Donald's plans at public exhibition. A brochure explained the concept: "Some of its present problems Coventry owes to its medieval foundations. The narrow crooked streets in the central area, the congestion and lack of open spaces and facilities for car parking are incongruous in one of the main car-producing centres of Britain. The damage which followed enemy air attack has aggravated the central reconstruction problem but presented the city with the greater opportunity for central replanning which clearly must be used to the full."

A quarter of a century later, the precincts have few adherents. They virtually die at night; their danger deters pedestrians

And used it was. Modern principles of zoning, pedestrian precincts and grade-separated highways were imposed. The elevated inner ring road roughly followed the line of the medieval city wall. Inside that, distributor roads allowed access to parking and to service the shops. Apart from the area round the rebuilt cathedral there were few reminders of the city that was. As Nikolaus Pevsner observed in 1964: "the centre ... can only be treated in 20th century terms." He described the remaining medieval buildings as an "alien body."

Pevsner, an enthusiast equally for modern and medieval, admired the scale of the Gibson plan but preferred not to comment on the architecture. A quarter of a century later, Coventry's epoch-making precincts have few adherents. They are considered too wide and monotonous, while the shops are too narrow for today's demands. Plans to cover and remodel the upper precinct have been hit by the retailing downturn. The precincts virtually die at night; their perceived danger deters pedestrians. Car parks are unpopular for the same reason. People go elsewhere.

The much-heralded inner ring road, the Ringway, is seen as choking Coventry's economic revival by containing uses which normally would spread in response to demand. The road in effect cuts off inner-city residents from the centre, adding several hundred yards and an underpass to what was once a stroll.

Planning incongruities reach an extreme on Spon Street, one of the main medieval arteries, where painstakingly reassembled timbered buildings (housing shops, pubs and restaurants) sit between the precinct and the ring road, dominated by a housing tower block. The Spon Street reconstructions are not widely visited because tourists care mainly for the cathedral.

Last month the Coventry Economic Strategy Group (Ecstra) met to discuss such matters, led by Mr Malcolm Adkins, a former city planner who is principal lecturer in the Department of Policy Studies at Coventry Polytechnic. The group, comprised mainly of professionals, aims to give the city council ideas for future reference.

Mr Adkins suggested that rebuilt Coventry had put too much emphasis on people as consumers rather than as pro-

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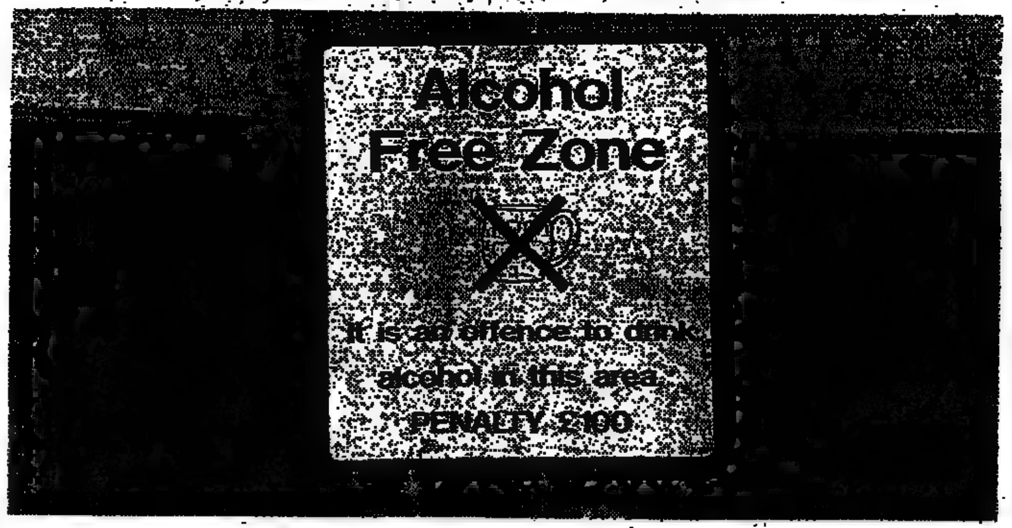
Ban on drinking in city centre streets

A measure of success



Lager louts, beware! "No alcohol" sign in Coventry's city centre

COVENTRY IS no slouch when it comes to innovation, but even local eyebrows were raised in November 1988 when the city became the first in Britain to ban drinking in the streets.

Bold though the move may have been, however, it is now a widely welcomed feature of city life and seems to have secured most, if not all, of the objectives it set out to achieve.

The ban, in fact, is neither universal nor permanent. It was introduced for an experimental period of two years and covers only the centre of the city – in other words, the relatively small area within the ring road, comprising the shopping precincts and the Cathedral.

Under a by-law approved by the Home Secretary, drinking in public within this area – other than in licensed premises – is banned. Anyone caught drinking alcohol out of doors, and refusing to stop when told, is liable to prosecution and a fine of up to £100.

At the time the ban was introduced, it looked like a knee-jerk reaction to worries about a nationwide spate of drink-related lawlessness which had just given birth to a new stereotype: the lager lout.

Its origins, however, went back much further to an imaginative package of measures drawn up by the city council in an attempt to tackle local problems of alcohol abuse.

Many of these measures – involving schools, welfare agencies, businesses and the courts – were intended to address the causes of problem drinking, but the idea underlying the by-law was to extinguish one of its more obvious symptoms: groups of youths drinking from cans in city centre shopping areas, particularly during pub closing hours in the afternoon.

The city council argued that this type of drinking frightened shoppers away and led to drink-related crime. Further, the sight of tramps and winos tarnished the city's image in the eyes of business visitors and the large numbers of tourists visiting the Cathedral.

The Home Office had reservations over the proposed ban. It pointed out that other laws provided remedies against drunken and disorderly behaviour, and it was worried that the ban could be construed as an infringement of the rights of peaceful outdoor drinkers.

Coventry, however, argued that the threatening behaviour of noisy drinkers was depriving vulnerable people – the elderly, and people with young children, for example – of their civil liberties by preventing them from going where they wanted to go.

The Home Office therefore decided on a two-year experiment to test whether the ban could be enforced without being oppressive and whether it was effective in controlling the perceived nuisance. It subsequently gave the green light to similar experiments in other local authority areas: Bath, Restmoral (Cornwall), Rushmoor (Hampshire), Scarborough, Stockton-on-Tees and Chester.

The results in Coventry have so far been favourable. In July last year the Home Office published the findings of a survey carried out just before the ban came into effect. Of the 1,200 city centre users interviewed, nearly 90 per cent thought the ban was a good idea.

There has been ready compliance from the majority of city users

The survey also showed that more than half the respondents saw public drinkers as a problem and that nearly two-thirds said they sometimes avoided the city centre altogether as a precaution against crime and disorder.

Clearly, then, the ban was popular and went some way towards meeting a perceived need. It has also proved easy to enforce, apparently meeting with ready compliance from the overwhelming majority of city users.

Mr Ken Lomas, director of the council's property services department, says only 31 people have had to be warned to stop drinking since the ban was introduced, and 25 of these reponded willingly. Of the six cases reported for prosecution, three have been heard, resulting either in small fines or referrals to an alcohol advice centre.

Credit for the high compliance rate must go in large part to Coventry City Council, which took painstaking efforts to publicise the ban before its introduction – though it is also tempting to speculate how far the rationale for the ban was undermined by the introduction of all-day opening for pubs, which came at about the same time.

Nevertheless, Superintendent Mike Bromwich of Coventry police welcomes the experiment, saying it has helped to make the city centre a more pleasant place while proving largely self-policing.

One example he cites of the ban's effects is the annual June carnival in the city centre, when the combination of the festive atmosphere and excessive alcohol consumption has a tendency to produce violent results.

"Historically, you could reckon on 30 to 40 people being arrested for drink-related incidents in the streets on carnival day," says Supt Bromwich, "but last year there wasn't a single arrest." It was a similar story at Christmas and New Year, he adds.

The ban has not been a panacea for all Coventry city centre's drinking problems. As Supt Bromwich points out, it has had no discernible effect on the problem of the late-night violence that too often accompanies closing-time at the city centre's pubs and clubs.

Mr Lomas, too, acknowledges that to some extent the ban has not stopped winos and tramps from drinking in public, but instead simply relocated the problem to small parks just outside the fringes of the city centre.

Still, it would seem unfair to criticise the experiment too heavily on this score. As Mr Lomas says: "It wasn't so much the winos we were worried about: it was the gangs of youngsters with their packs of lager who were upsetting the people in the city centre. In stripping them of the platform on which they like to perform, the ban has been a 100 per cent success."

The experiment has also been applauded by Mr John Patten, Home Office Minister of State, who said in answer to a parliamentary question in January that the information available so far suggested it was going "extremely well."

On that basis, the day when an experiment dreamt up in Coventry becomes a permanent feature of the nation's statute books may not be far away.

Richard Tomkins
Midlands Correspondent

Miss Jenny Talbot, Coventry programme director, Common Purpose

COMMUNITY LEADERSHIP

Common Purpose is seen

IT WAS in 1959 that North America's first community leadership programme was set up in Philadelphia. Thirty years later, having spread across the US, the idea has crossed the Atlantic to arrive in Coventry.

The purpose underlying these projects is to bring together emerging leaders from different parts of the community and show them how they can work together to make their town or city a better place.

The theory is that most cities simply do not have enough good quality leaders, and that even those frequently lack the knowledge and experience to enable them to take the best decisions for the community as a whole.

In the US, one factor that gave birth to the concept was the race problems of the 1960s which emphasised the need for better understanding between different sections of the community. Another was the trend towards corporate mergers, which stripped many towns and cities of local business leadership by transferring executive power to distant headquarters.

The US schemes have proliferated to the extent that there is now hardly a large town or city without one, and they are grouped together under the National Association of Community Leadership Organisations.

The idea was brought to the UK by 31-year-old Ms Julia Middleton, a former employee relations consultant who had earlier launched the Head Start programme for training unemployed youngsters in the inner cities.

Inspired by tales of the US experience of community leadership organisations, and with the help of £500,000 worth of start-up finance from the Government's Action for Cities programme and private industry, she set up Common Purpose as a non-profit-making UK version of the scheme last year.

Two experimental programmes have so far been established under the Common Purpose banner: one in Coventry and the other in Newcastle-upon-Tyne. Another three – in Bradford, Islington and Swindon – are due to follow in October.

Participants in each programme are drawn from as wide a range of backgrounds as possible, to reflect the diversity of the city's community. They are usually 30-45 years of age and working in a paid or voluntary capacity: but the most important criterion is that they must be seen as emerging leaders, involved in making decisions that have an impact on life in the city.

Coventry would not claim to have achieved a perfect combination of participants for its first programme – only eight of the 30 are women, and there is no one from the trade union movement or the arts. None the less, they represent a broad spread of interests: local government, the police, the health service, education and the church, as well as local companies such as GEC Plessey Telecommunications, Jaguar, Coventry Cable, the Coventry Evening Telegraph, Rover and Peugeot-Talbot.

At the beginning of the programme last October, each participant paid a £500 course fee which his or her employer was expected to provide. They then joined a 10-month programme, now half-way through, which consists of an opening two-day residential seminar at a local hotel followed by one day a month of intensive, 12-hour sessions covering key issues in the city.

The first month's session, for example, covered government structure and issues; the second month's was crime and justice; the third, housing and environment; and the fourth, quality of life. Topics to be covered over the remaining five months are education, health and social services, economy and employment, image of the city, and people and potential.

Typically, a session will consist of an address from a keynote speaker, a division of the group into case study syndicates, site visits, further work in syndicates, feedback from experts in the field, and a final discussion.

There are also extra-curricular visits which participants can join on a voluntary basis. In Coventry, these have included a visit to Long Lartin maximum security prison, a visit to a football match, and a tour of duty with the police at closing time in the city centre's pubs and clubs district.

Miss Jenny Talbot, the Coventry programme director, calls Common Purpose an education and information programme. Its aim, she says, is to raise people's awareness and get them to step into other people's shoes for a while in the hope that when they come to take decisions within their own organisations, they will make them with a better knowledge of other people's needs.

A small example, says Miss Talbot, came during the session on housing and the environment when the group visited a project for single homeless people. They discovered that the project could make use of office furniture which was being discarded by GEC Plessey Telecommunications.

One possible criticism of Common Purpose is that, unlike other charities with tangible objectives such as raising money to achieve some goal, its underlying purpose is sometimes hard to grasp. With objectives so nebulous, how is it possible to measure the project's success?

Miss Talbot acknowledges the difficulty. Ultimately, she says, the future of the scheme will rest on the verdict of others: it will continue and grow only as long as enough sponsors are willing to back it and enough leaders come forward to take part.

But even now, she says, at this early stage of the pilot programme, it is possible to see results coming through. She cites a visit during the session on quality of life, which looked at the extent to which different sectors of the community had access to sport, art, leisure and culture.

"During the session we had a visit to an unemployed workers' project," she says, "and one of the guys from the private sector came back saying he didn't know how to describe the experience.

"He'd read about unemployed people, he'd heard how they struggle, but to sit down and spend an hour talking to somebody who was able to articulate the dire straits that people are in when they are unemployed, the downward spiral they go into, had actually made a difference.

"If that means when he goes back to his company he decides to implement a policy that makes it easier to bring in unemployed people, to introduce some form of training or to look slightly differently at taking unemployed people on board within the organisation, then I think Common Purpose will have been worth it."

Richard Tomkins

Concrete burden

Continued from Page 4

ducers. The city centre lacked a range of buildings in all sorts of conditions – from pristine to derelict – which would encourage entrepreneurial activity. The principle of zoning should be abandoned so that, for instance, the Polytechnic campus could be opened up to a wide range of uses. And the city centre should be encouraged to spill over (or under) the ring road at Spon End, Hillfields, Gosford Street and so on.

One specific proposal floated during the Ecstra meeting is to create a ready-made Coventry conference centre by annexing two disused buildings – the former Cannon Cinema near the Leofric Hotel and the former Coventry Theatre near the De Vere Hotel – to be restored in parallel with hotel improvements and marketed as a package. This is in line with a city council initiative which took a redundant dance hall and converted it into the new central library.

Mr Bill Rogers, secretary of the Coventry Society, believes that the council is not on the whole improving matters. It "lost a great opportunity" with Cathedral Lanes, the shopping precinct under development in the heart of the city between Broadgate and the cathedral area. Mr Rogers says his society wants a scheme which would open the area up rather than fill it in.

He cites the new mirror-glass Friars Tower office block as an example of the way major building seems to happen in Coventry without consultation, and adds ruefully that in 20 years of existence the society has never been invited to meet the council in an exchange of ideas.

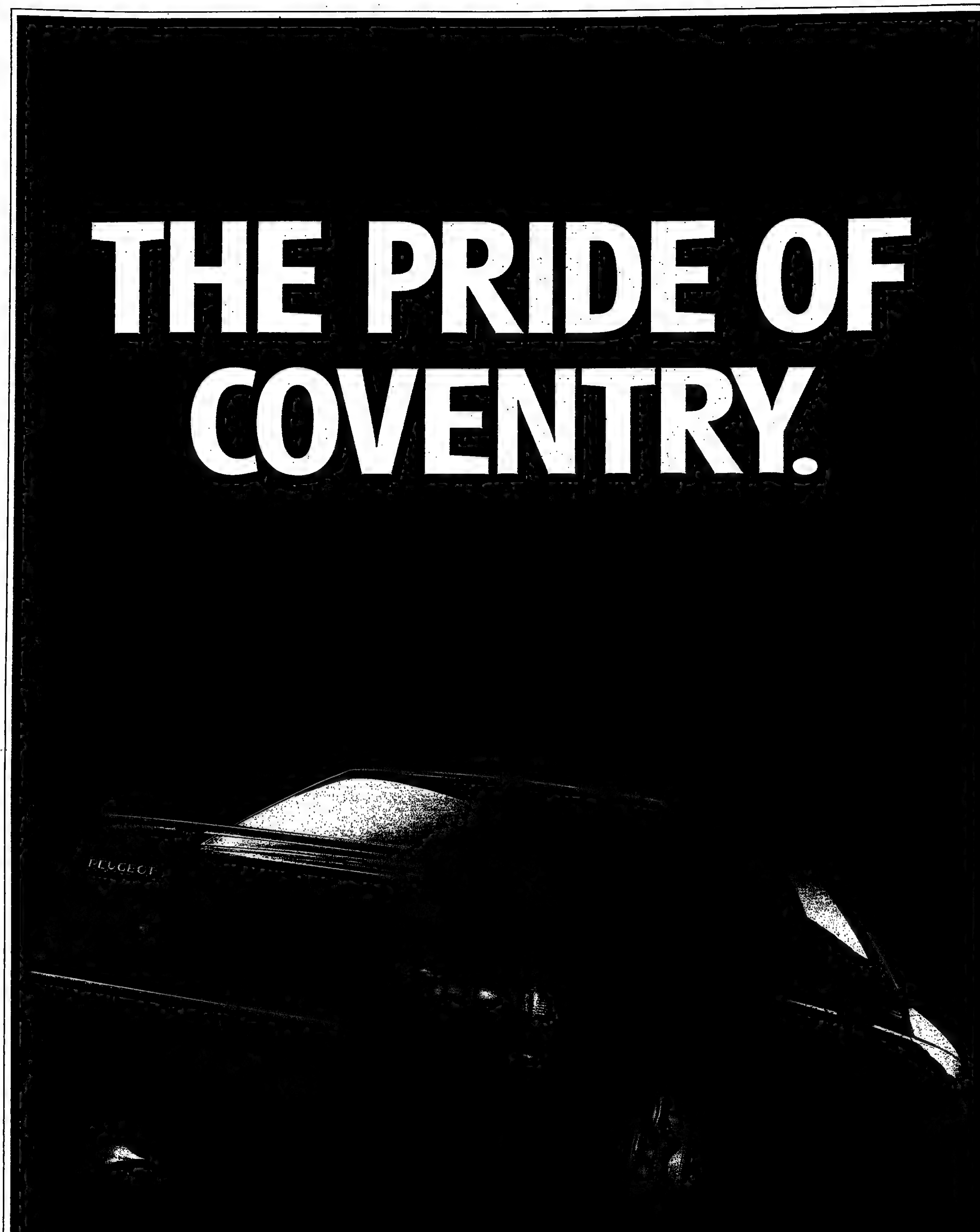
That criticism is not accepted by Mr Michael Tegerdine, the city's head of design services, or Mr Roger Arlidge, its chief architect. They say that Coventry recognised the need to bring a variety of new uses to the city when formalising the central area local plan in 1986. And there have been public consultations last spring and summer.

Will Coventry ever free itself from the concrete burden adopted with such conviction 40 years ago? The fact that the city owns most of the precinct area does not help. Shops were offered 125-year leases and extrication could be complex.

Today, raising public finances for such operations is all but impossible. "Whichever way you look at it, we are constrained by developers," suggests Mr Tegerdine.

Introducing the 1945 exhibition, the Mayor of Coventry wrote of "a vision not of a dream city but of practical accomplishment and operational usefulness, catering for the needs of a new rising democratic generation." That generation has begot another whose needs are slightly different; the practical accomplishment remains. As the brochure puts it elsewhere: "Posterity will judge whether wise solutions were found."

Robert Waterhouse



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SECTION III

FINANCIAL TIMES SURVEY

Tokyo can almost certainly cope with the strain of a turmoil whose root cause was a rise in interest rates, says Stefan Wagstyl. In the short term, investment overseas may be slowed, but in the long term the Japanese are regaining their zeal for foreign securities.

So far, it's not a crash

■ ON THE Tokyo markets, a new decade has brought a return to reality, though there has been none of the cataclysmic concern for the future that characterised Wall Street in late 1987. □ *LEFT:* A foreign exchange dealer flashes a sign, sending orders, as the key index on the stock exchange plunges. □ *CENTRE:* Another forex dealer spreads his arms during frantic currency trading. □ *RIGHT:* A stock dealer falls on his face over a table after a period of frenzied trading at the Tokyo Stock Exchange.

JAPANESE FINANCIAL MARKETS

IN THE 1980s, the Japanese financial markets sometimes seemed to defy gravity. The start of a new decade has brought Tokyo back to reality with sharp falls in stocks, bonds and the yen.

Japanese investors have been scurrying for safety, touched by the same mood of uncertainty which gripped New York and London in October 1987. The Ministry of Finance and the Bank of Japan are arguing openly about how to restore confidence in the currency. Repeated intervention in the foreign exchange market failed to prevent the yen falling below Y150 to the US dollar for the first time in more than a year.

"Everybody feels a bit shaky about shares, bonds and the currency," says Mr Toru Kusukawa, deputy president of Fuji Bank.

Nevertheless, people are feeling shaky within narrowly defined limits. There is none of the cataclysmic concern about the future of the economy which characterised Wall Street in late 1987. There are no fears of imminent bankruptcies or mass-dismissals among financial companies. No thought of a possible Japanese Drexel Burnham Lambert.

The Nikkei index has fallen about 15 per cent since hitting a record high at the end of December. Some stockbrokers believe it could fall further, perhaps by another 10 per cent. This will hit the profits of financial companies and cut fund managers' returns. But, so far, it is not a crash. The Nikkei is back only to last summer's level. Mr Nobuo Inoue, general manger in the planning department of Yamaichi Securities, said: "If this had happened 10 years ago, everybody would have been very nervous. Now they're not."

Political uncertainty at home and abroad has undermined international confidence in Japanese markets. Mr Toshiki Kaifu, the prime minister, has his power circumscribed by the elders of the ruling Liberal Democratic Party, despite his contribution to the party's victory in the recent general election. Overseas, Japan faces increasing difficulties in its relations with the US.

However, the root cause of the turmoil in Japan's markets is a rise in interest rates. Japanese short-term rates began to rise last year, in response to increases in the US and West Germany. But long-term rates in Tokyo only succumbed to the pressure early this year, when the yield on the 10-year benchmark government bond soared from 5.5 per cent to over 7 per cent recently.

Tokyo is suffering from fears of the possible impact on inflation of the excess money pumped out in the latter 1980s by the Bank of Japan in order to keep the yen down against the dollar. This cash helped to boost stock and land prices to their current high levels. Now that the central bank is trying to restrain the money supply, investors are not surprisingly experiencing a touch of vertigo.

Tokyo can almost certainly cope with the strain. The Japanese economy is slowing down slightly, but should still record an increase of 4 per cent in GNP this year. Japanese financial companies are sitting on the accumulated profits of five years of booming markets. Nomura Securities, the biggest stockbroker, is expected to announce record pre-tax profits of Y500bn for the year ending this month, crossing the Y500bn line for the first time for any financial company.

The value of the Tokyo stockmarket is the biggest in the world, at about Y550,000bn, but is only about one third of the total financial assets of individuals and corporations which totalled Y1,600,000bn at the end of last year, as calculated by Nomura. Financial institutions have, since 1985, doubled the proportion of their funds invested in equities, but the figure is still just 9 per cent.

Japanese companies may now find it more expensive to raise funds in the capital markets. In the year to last March, they raised Y17,088bn, nearly six times more than in 1985. Manufacturers may be forced to rely more on debt once more, but have a comfortable cushion of equity in place – the ratio of equity to assets has risen from 20 per cent to more than 30 per cent in the last 10 years.

Turmoil in Tokyo may, in the short-term, slow Japanese investment overseas, but it may eventually accelerate the flow as Japanese fund managers may find added reason to invest abroad. In the past year, Japanese investors have recovered their zeal for foreign securities, which was dampened in the wake of October 1987.

Last year, net purchases of securities overseas totalled $113bn, against $87bn in 1988. This included a sharp increase in the buying of equities, from $8bn to $17.9bn, reflecting a new confidence among Japanese fund managers to diversify their holdings. Interest should persist, with investors keen to buy European stocks to profit from the economic integration of the European Community and the reconstruction of eastern Europe.

According to Daiwa Securities, Japan's net external assets, which stood at $290bn at the end of 1988, could reach $1,000bn in the next decade, and yield annual returns of over $100bn, far above last year's trade surplus of $64.4bn. The focus of international tensions over Japanese economic power could increasingly shift from trade to investment. The concerns voiced in the US about the sale of Japanese acquisitions could easily get worse. Japanese companies are acutely sensitive to charges of being over-aggressive, particularly with direct investment. They avoid hostile corporate takeovers and seek foreign investment partners.

Nevertheless, the focus of Japanese investors' attention, even after the recent upheaval, will be Tokyo. Mr Koichi Kimura, deputy president of Daiwa, said in a recent speech that, like US investors and unlike British ones, Japanese institutions do not need to diversify fully overseas because of the "gigantic" domestic markets.

Given the willingness of Japanese to save, and of Japanese industry to invest, these markets should continue to grow rapidly in the 1990s. Japanese households continue to save about 15 per cent of their income.

One of the fastest-growing areas will be pensions, as the way people save for old age becomes more institutionalised. Japan now has some $900bn in pension funds, the US $2,000bn. In 10 years, the Japanese total could reach $1,800bn, according to Daiwa Securities.

As well as growth, there will be more financial deregulation. The Tokyo Stock Exchange and the newly-established Tokyo Financial Futures Exchange are considering new futures and options products. The liberalisation of interest rates, which began in 1979, last year finally reached the man in the street with the lowering of the minimum limit on money market certificates from Y10m to Y3m. This April it will fall to Y1m.

Deregulation and growth have brought new companies to the fore – leasing and consumer credit companies are competing in the retail finance market with old-established banks. In securities, foreign stockbrokers are influencing the investment habits of Japanese fund managers, encouraging more research-based stock-picking, for example.

However, there are signs that the LDP's political troubles could slow the pace of further deregulation, above all in the sensitive matter of the barriers that divide Japanese financial companies, particularly Article 65 of the Securities and Exchange Law which keeps banks out of securities and stockbrokers out of banking. Stockbrokers concede some kind of reform will eventually take place, but hope it will not be for at least two years. The banks curse the delays.

For foreign companies in Tokyo, the chief recent regulatory advances have been in fund management, with the winning of permission to compete in investment trust and corporate pension fund management.

However, the thrust of the attack from the US, Japan's most powerful foreign critic, has now turned from narrow issues of market-access to problems caused by more broadly-based advantages of Japanese companies. These include the access which Japanese banks enjoy to low-cost deposits, and the exclusive nature of relations inside large corporate groupings, or *keiretsu*, which outsiders find hard to penetrate.

These complaints cannot be settled quickly like the issues of the past by rewriting a rulebook. They require nothing less than a transformation in Japanese business practice. Moreover, even if this transformation were to happen, it is not clear whether foreign companies would benefit – for example, a reform of links inside keiretsu may simply make Japanese industry even competitive than it already is.

Despite the gripes, some groups are making a bigger success out of Tokyo than they want to admit. Foreign securities companies, which fought hard to win seats on the Tokyo Stock Exchange, have reported increases in market share and profits. Although some have been over-dependent on a temporary boom in warrants trading, others are building broad-based *businesses of sufficient* reputation to attract recruits from top Japanese universities, including Tokyo University. In Japanese terms, they have arrived.

'It's like being squeezed into a can for several weeks...'

□ This was a former trainee's description of his first month's experience at a Japanese securities company – *see page 12 of this survey*

ALSO IN THIS SURVEY

Editorial production: Martin Davies

Overseas investment: the world's biggest creditor stands . . .

Where the US used to be

JAPAN IS in much the same position now as the US was in the 1960s. That was a time when US money seemed to be ruling the world. The major US money centre banks were all powerful, and there was an increasing public outcry as their multinational clients appeared to be threatening to buy up corporate Europe.

Before Toyota, there was Ford and General Motors; and before Sony there were companies like General Electric and IBM. Bank of America, Chase Manhattan and First National City Bank once seemed as important as the Industrial Bank of Japan, Fuji Bank and Sumito. Now, it is Japan Inc's turn to be on top of the world.

The furore caused by the Japanese purchase of a New York landmark, like Rockefeller Centre, is not much different from the fuss that was created by the Arab oil money that poured into prestigious properties in London's West End during the 1970s oil price crisis. It is yet another symptom of Japan's emergence as the world's biggest creditor nation.

It is investing around $150bn a year overseas, of which a third is direct investment. Its net external assets have risen 25-fold over the last decade, and they should double again, to $700bn, over the next five years. Dr Kenneth Courtis, Deutsche Bank's senior economist in Tokyo, argues that, by the end of the decade, Japan could have net external assets of a $1,000bn.

"The pool of money available is not going to shrink suddenly," says Dr Courtis.

Japan's current account surplus will remain quite strong, domestic savings are not going to collapse, corporate liquidity is robust and Japan's public finances are moving into surplus. The inflated values of the Japanese equity and real estate markets mean that there is a continuing incentive for money to flow overseas.

Meanwhile, fears about growing protectionist sentiment in many of Japan's major overseas markets is encouraging a rush by manufacturing companies to set up local production facilities. The Ministry of Finance has estimated that Japanese direct investment overseas in the year to end March will have grown by 30 per cent to $60bn, which is equivalent to Japan's trade surplus. Foreign direct investment is now growing at a faster pace than US direct investment in Europe in the 1960s, says the Nomura Research Institute (NRI).

The rapidly changing financial fortunes of the world's two biggest economic super-powers has been quite dramatic. Little more than a decade ago, America's net external assets of $70bn were more than three times the size of Japan's. Today, the US is the world's biggest net debtor and its deficit is expected to rise to $1,300bn by 1995, according to NRI forecasts. It is not surprising that Japan's rapidly growing wealth is already causing frictions.

Rumours that the Japanese are not going to make their regular appearance at the quarterly US treasury bond auctions is enough to send US share prices tumbling. When Europe wants money for major infrastructure projects, like the Eurotunnel, it is the Japanese banks that have to be kept sweet. And when the West German stock market took off earlier this year, it was Japanese buying which was behind it.

Japanese money is making its presence felt in all sorts of ways and it is not always comfortable. US newspapers have been running public opinion polls, asking which is the greater threat to America, Soviet military might or Japan's economic strength? And Mrs Carla Hills, the US trade representative, has described the recent US acquisitions by Sony and Mitsubishi Estate as "bad strategies". Clearly, both sides have to tread carefully.

Japan's Real Estate Companies Association is framing voluntary guidelines, in order to prevent its members' foreign investments from causing friction and misunderstandings in places like Sydney and Hawaii. The Foreign Ministry is trying to head off the rising xenophobia in Washington, and Japanese companies are so sensitive to the growing trade frictions between the two countries that the last thing they are going to do is launch hostile takeover bids for US companies.

But, despite all the belligerent noises, America still needs Japan's money. And while it is the mega-investments that catch the headlines, the steady diversification of Japan's external assets is likely to continue to proceed in a less controversial manner.

Until 1980, tight curbs on capital movements had the effect of blocking most foreign investment by Japan's portfolio managers. However, the rules have been greatly liberalised, and Japanese life insurance companies can now invest up to 30 per cent of their assets in foreign markets. The post office has been authorised to invest up to 10 per cent of its money overseas.

Despite this increased freedom, Nomura estimates that foreign securities still only account for 4 per cent of all outstanding assets held by Japanese financial institutions, and this percentage has been relatively stable over the last couple of years. One of the big problems is that there is a shortage of good international money managers among the Japanese institutions. This explains their conservatism. Investments in failed firms like Drexel Burnham Lambert may catch the headlines, but the bulk of the money still goes into the ultra-safe US treasury bond market.

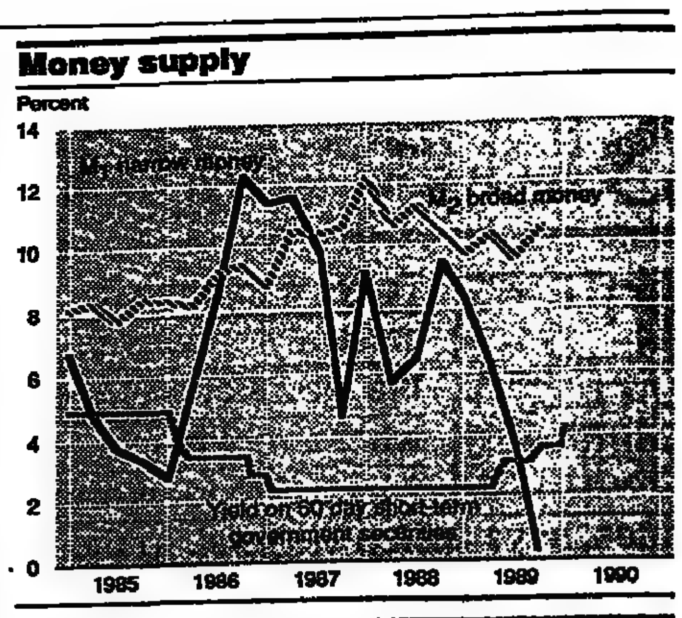
It is far and away the biggest of the world's bond markets, and offers unrivalled liquidity and simplicity of dealing. Given the sheer size of Japan's capital flows, it is hard to imagine the Japanese ever boycotting this market for long. There is no viable alternative if Japan wants to put its money overseas.

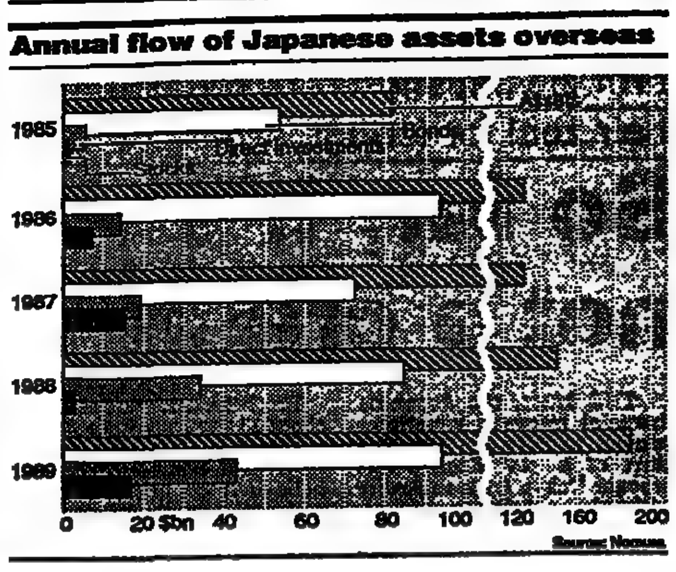
European equity markets have been waiting for the wall of Japanese money to hit them for several years now and, apart from the recent move into West Germany, the volume of money going into overseas equities last year was little different from 1987. Japanese investors do not yet have enough information to feel confident about putting much of their money into overseas equities.

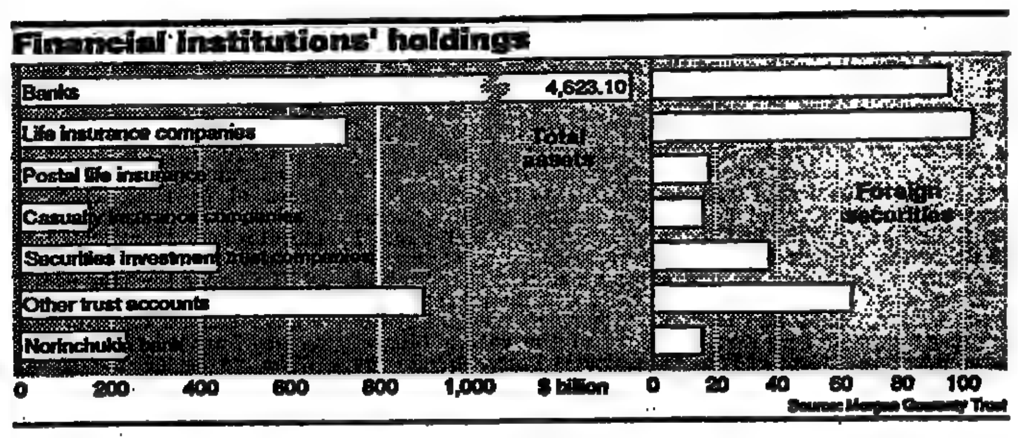
Several closed-end European country funds were recently trading at roughly double their book value, when they normally traded at a discount, just because of a surge of mainly Japanese buying. It is cases like this which make Japanese investors understandably cautious about committing large sums. Similarly, the relatively small size of the Asian stock markets limits the amount of money which can pumped in this direction without unduly moving prices.

Mr Hirohiko Okumura, chief economist of Nomura Research, says that the 1990s will prove to be Japan's "golden age", when it will build on its role as the world's largest supplier of external funds. He may well be right, but the responsibilities which go with that role are equally demanding.

William Hall

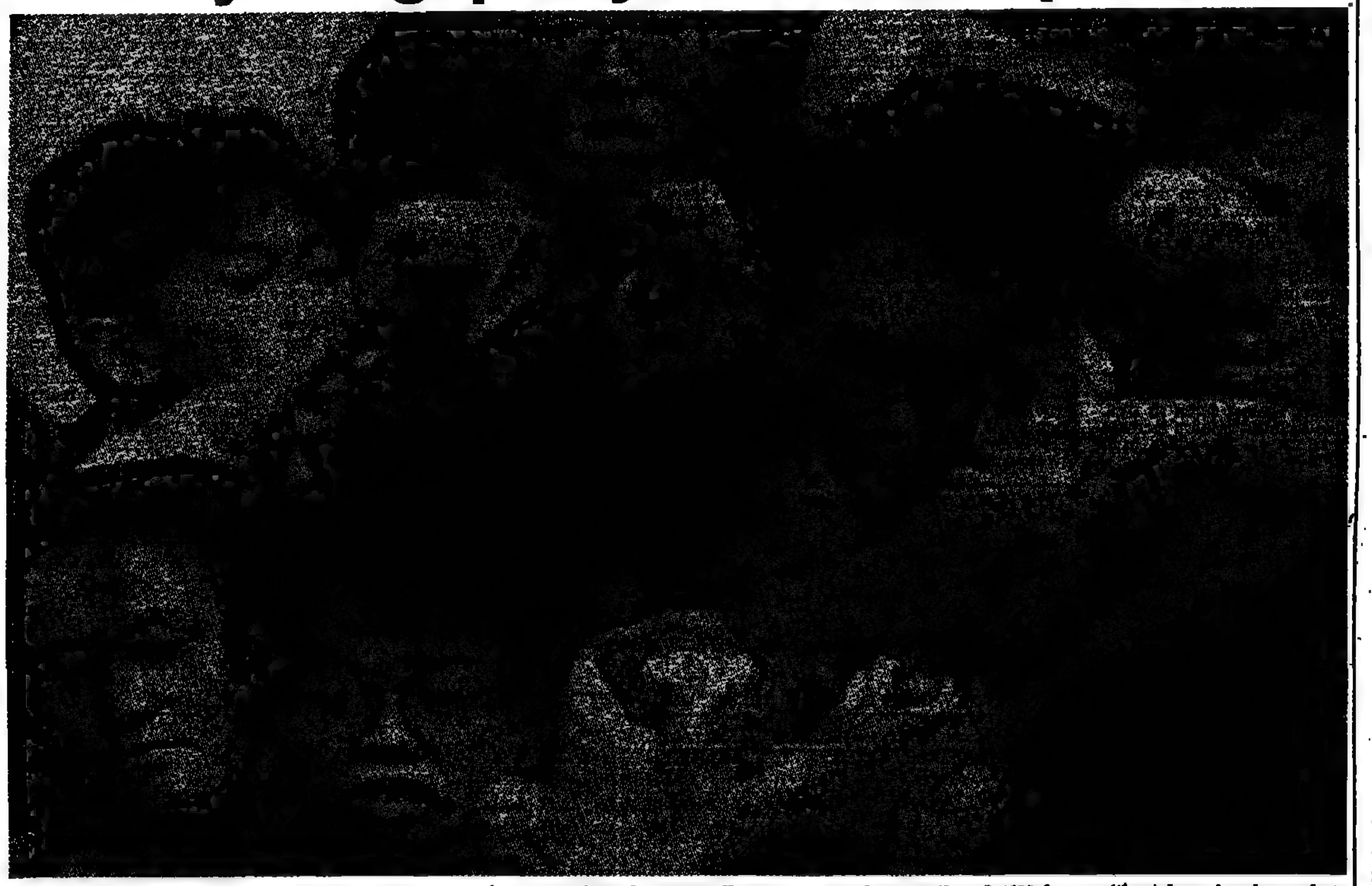






As the Tokyo stockmarket ceases to defy gravity . . .

The yield gap says it looks expensive



THE JAPANESE stockmarket has been rising for more than a decade, and the Nikkei index has shown an eightfold rise in the process – a record unmatched in modern Japanese economic history.

However, the dramatic change in sentiment in the opening weeks of 1990 has raised the unnerving question of whether this will be the first year in more than a dozen that the Japanese equity market has ended lower than it started.

It is often forgotten that Japanese share prices had fallen in almost as many years as they had risen, prior to the recent dramatic rally which started in November 1977. In the 1960s, the Nikkei rose by a mere 74 per cent – less than it did in 1988 and 1989 alone.

The idea that Japanese share prices rise year in and year out has become so entrenched in the popular imagination that it has bred a certain complacency in some quarters of the securities industry.

While the big securities firms of London and New York struggle to earn a modest return in an industry with far too much capacity, their Tokyo rivals have been basking in a golden environment. Nomura Securities, the world's biggest brokerage firm, sells on a multiple of 24 times earnings, and with a stockmarket capitalisation of $37bn towers over its weaker foreign competitors.

In a country where inflation is running at under 2 per cent per annum, the prospect of making capital gains of upwards of 50 per cent per annum throughout the 1980s has kept investors loyal to the cult of the equity.

David Hale, the chief economist of Chicago's Kemper Financial Services, notes that Tokyo's turnover rates are twice those of New York, despite the high fixed commissions.

Meanwhile, the heady equity valuations have kept the investment banking departments busy as Japanese corporations have used their premium ratings to raise huge amounts of capital.

There is a considerable vested interest in maintaining the upward momentum in Japanese share prices, and the importance of this factor should not be underestimated.

A couple of years ago, the Nikkei was hovering around 21,000. At the end of 1988 it had broken above 30,000, and by the start of this year it was nudging 39,000. In terms of market capitalisation, the Tokyo stockmarket had long since left New York behind, and the big securities firms were forecasting 45,000 by the end of the year.

Many of the factors that had fuelled the earlier rise are still in place. Forecasts of real economic growth of 4.5 per cent, inflation of 1.6 per cent and a continuing current account surplus of around $60bn are little different from previous years. So what has precipitated the change in mood and led to huge moves of up to $150bn a day in Japanese equity valuations?

The surge in Japanese equity prices over the last few years has been magnified by a near-doubling in price earnings multiples. This re-rating was the product of an unusually powerful combination of events. A dramatic drop in world oil prices, a sharp appreciation in the value of the yen, and interest rates which have been falling for almost a decade, created a golden era for Japanese equities.

In 1980, Japan paid Y12 trillions (million millio) for imported oil. By 1988, this had dropped to Y2.4 trillions, according to Morgan Stanley's research; and, meanwhile, the dollar had roughly halved in value to Y120. This led to a virtuous circle of low inflation, a strong exchange rate and high stockmarket multiples, and enabled Japanese corporations to raise all the money they needed to invest in more efficient plant and machinery.

However, several of the props underpinning the equity market are no longer anywhere near as important as they once were. Oil prices have been rising steadily, the yen has proved surprisingly weak, and short-term Japanese interest rates have been risen by two thirds in the last year. Corporate profits are still moving ahead, albeit more slowly, but the sharp decline in Japanese Government bond prices in the opening months of 1990 has made Japanese equities suddenly look much more expensive.

There are all sorts of ways of valuing the Japanese stock market, but one of the most commonly used is the gap between the yield on the benchmark government bond and the earnings yield on the First Section of the Tokyo Stock Exchange. On this criterion, the market at the beginning of March was looking expensive. Over time, this will be corrected either by a recovery in the bond market (much the preferred solution) or a further drop in share prices.

The Japanese authorities are known to be concerned about the rapid growth of the local money supply and inflation in both equity and land values. The official discount rate was raised three times last year without damaging share prices. However, the strains are now beginning to show, and any further substantial tightening in monetary policy could well mean that 1990 will be the first down-year for Japanese equities for a long time.

The main worry for the authorities remains the weakness of the yen. This is increasing inflationary pressures, and, although these are not yet showing up in the official statistics, there is a limit to how long they can be postponed.

On purely competitive grounds, the yen is undervalued at current levels; but continuing capital outflows could well lead to further weakness. This will severely limit the equity market's upside potential and increase the downside risks.

William Hall

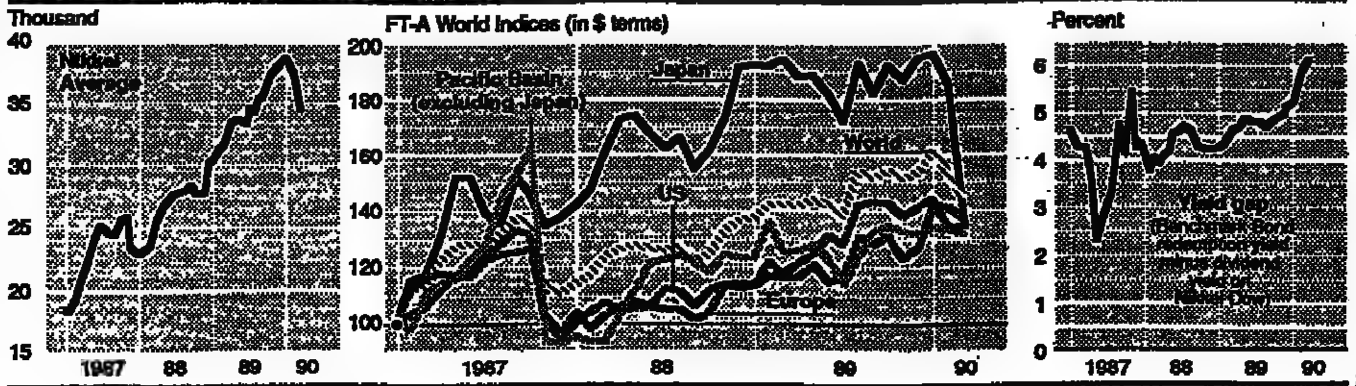
☐ **PICTURE: Floor dealers crowd the registration counter in a brisk session during the recent dramatic change in sentiment on the Tokyo Stock Exchange** ☐

Japan's top 10 companies

	Market capitalisation ($bn)	p/e ratio
NTT	136	83
Industrial Bank of Japan	80	133
Sumitomo Bank	62	52
Fuji Bank	60	57
Dai-Ichi Kangyo	52	51
Mitsubishi Bank	50	54
Sanwa Bank	49	44
Toyota	47	21
Tokyo Electric	47	78
Nomura Securities	37	24

Source: Daiwa Securities; data as at February 22, 1990.

How the markets have moved



'This is what we were expecting all along'

Futures traders are an easy target. They're getting the blame again. STEFAN WAGSTYL considers the influence of programme trading

FUTURES TRADERS, branded the villains of the piece in the October 1987 crash in New York, are now being made the scapegoats of Tokyo. They are accused of precipitating, or at least exacerbating, the recent sharp plunge in the Tokyo stock market.

The futures brokers are an easy target. Stock index futures trading was launched in Tokyo only in 1988. So an important difference between October 1987, when the Tokyo market survived with its confidence intact, and February 1990, when it did not, is the presence of futures traders.

Moreover, futures techniques were introduced mainly by US investment banks, led by Salomon Brothers and Morgan Stanley. Even though Japanese brokers also use the futures markets actively, the foreigners are prominent in the size of their orders, the sophistication of their computer-driven trading methods and the speed with which they move in the market.

Japanese have been unable to resist the temptation of blaming the market's troubles on the techniques of the foreign devils.

"The feeling is that we are now seeing what we were expecting all along – that is, the effects of programme trading," said Mr Shin Tokoi, a Japanese working at County NatWest, the UK securities company. "Programme trading is beginning to influence the Tokyo market a year and a half after the futures market started in Japan in 1988, and this is about the same time it took programme trading to become a major force in the US."

The US investment banks, which have been singled out for attack, vehemently deny that programme-trading has been responsible for the market's instability. They say the kind of computer-driven programme trading that is thought to have caused most damage in the 1987 crash on Wall Street is not carried out in Tokyo. This was "portfolio insurance", in which computers managed extensive programmes to protect portfolios from loss by trading very aggressively in the futures market.

In Tokyo, programme trading concentrates on arbitrage between the cash stockmarket and futures contracts based on the Nikkei index of 225 leading stocks and the Topix index of the top 1,222 shares. When the value of the index drops below the value of the shares of which it is composed, the computers buy the index and simultaneously sell the underlying stocks. If the index rises above the cash market, they do the opposite.

Salomon Brothers denies that this causes volatility. It insists that arbitrage closes gaps in prices, provides liquidity and "promotes the efficiency of the TSE". It adds that the extent of programme trading has been exaggerated. In the week beginning February 19, when the market plunged, the company said it accounted for just 1.5 per cent of total TSE turnover.

However, other brokers, including other foreign houses, are not convinced. They say that, in the final quarter of last year, some US broking companies started selling both the contract Nikkei index contract of 225 top stocks and the Topix index of 1,222 shares. Simultaneously, they began to buy equities in the cash market, to arbitrage the price gap. These purchases helped to drive the market to its record high at the end of last year, when the Nikkei stood at 38,915.

However, the brokers ran into trouble because they could not buy all the shares they needed to match their sales of contracts for the widely-based Topix index. They could not "track" the index in the cash market. So they decided to cut their losses and unwind their positions in advance of the expiry of the then-current contracts on March 8.

At the same time, the spread between the futures and cash market narrowed, eliminating the profit opportunity and increasing the incentive to liquidate positions. CS First Boston, a US broker, says these sales accelerated the drop in the market.

Tokyo Stock Exchange officials took the same view, and imposed curbs on arbitrage-related sales of stocks. They wanted to limit such sales to the opening of trading on the morning and afternoon sessions. Salomon Brothers said changing the rules in midstream was risky and "invited calls of unfair treatment." It added:"If the market goes up from here, it won't be because of the rule change. It will be because someone has found a buyer."

The TSE and its counterpart the Osaka Securities Exchange, where the Nikkei index is traded, are bound to consider further ways of reforming the regulation of stock index futures. One area of concern is the fact that the maximum one-day rise and fall in Tokyo and Osaka is limited, as it is in the cash market. These limits are supposed to act as circuit-breakers, controlling the maximum size of price movements.

However, the Singapore Mercantile Exchange also trades a Nikkei contract, with no limits on daily price changes. Usually this contract attracts little interest and so is not very liquid. Nevertheless, it does in principle offer a way around the TSE's rules.

The controversy over stock index futures has cast a something of a shadow over the other main development in futures trading in Tokyo in the last year, the opening of the Tokyo International Financial Futures Exchange (Tiffe).

Conceived by the Ministry of Finance and the banking industry, Tiffe is as a key element in the liberalisation of Tokyo's financial markets.

Since it opened last June 30, the exchange has filled an important gap in the yen funds market with one of its three contracts – Euroyen futures, the first of its kind in the world. Trading volume in the instrument has grown from less than 1m contracts a month last summer to 2m in December and 1.8m in January.

Banks, the main users, trade the contract extensively as part of their operations to manage short-term funds. They include Norinchukin Bank, the huge farmers' co-operative bank, and leading city banks, among them Dai-Ichi Kangyo Bank, Mitsubishi Bank and Mitsui. Among the 20 foreign members are US investment and commercial banks and UK and continental European universal banks.

However, the Euroyen contract accounts for over 99 per cent of the exchange's business. Its other two contracts – Eurodollar futures and yen-dollar currency futures – are almost moribund. At the end of January, open interest in Eurodollar futures and currency futures amounted to just 754 and 31 contracts respectively, against 163,070 for Euroyen.

Tiffe is looking to have the contracts traded more actively. The first step is the planned introduction of full automation next year. The exchange currently operates a semi-automatic system, under which traders have to telephone orders to exchange clerks who then put the trades manually into a computer. Users complain that this is too slow.

Tiffe is also planning to introduce Euroyen options, probably next year. This should boost its business in Euroyen. But the moribund Eurodollar contract will continue to suffer from the fact that the Chicago Mercantile Exchange, which dominates Eurodollar futures, has a mutual settlement agreement with Simex. Tiffe contracts can only be traded in during Japanese trading hours.

Meanwhile, currency futures contracts are little match for the very large Tokyo forward market in foreign exchange. Banks offer over-the-counter complex packages of futures and options which are easily traded. By comparison, Tiffe's instrument looks primitive.

BANKING: **Ian Rodger** on what happens . . .

If the barriers go

THERE IS a feeling in Japan's huge and powerful banking community that the era of fast and profitable growth, which the industry has enjoyed in the past few years, is about to come to an end.

At home, a combination of deregulation of interest rates and higher interest-rate trends is putting a double squeeze on the banks' basic loan business, and threatening the viability of many smaller banks.

Abroad, the brutal reality of write-offs on loans to Mexico and the sudden souring of the leveraged buy-out finance has made Japanese bankers more cautious than they were a few months ago about aggressive international expansion.

Meanwhile, the long-discussed dismantling of the barriers that separate various categories of banks and securities companies under Japanese law, although probably further away than many thought a year or so ago, is on the horizon; and this, too, will cause turmoil for most bankers in the next few years.

For the moment, these fears are mostly in the future and, if recent experience is anything to go by, reality may not turn out to be as unpleasant as some Japanese bankers expect. The current fiscal year, which ends on March 31, has already proved to be another one of strong growth in assets, although the squeeze on margins was already apparent in the banks' interim results.

The total net profits of the 12 leading city (commercial) banks plus the Bank of Tokyo rose just 2.8 per cent in the six months to the end of September. The biggest five – Dai Ichi Kangyo, Sumitomo, Fuji, Mitsubishi and Sanwa – reported declines in net income.

Apart from the squeeze on their spreads, the banks also suffered from the decline in the Japanese bond market. Combined bond dealing profits dropped 39.4 per cent to Y14.9bn (£59m). In the full year, these trends are likely to intensify, because the bond market has continued to deteriorate, and interest rates have continued to rise.

However, assets have probably grown briskly. One leading city bank claimed recently that its assets would grow by about a fifth this year. At first glance, this is a bit mysterious, considering that, as elsewhere, the single-minded pursuit of asset growth is going out of fashion in Japanese banking. Also, overseas loan markets have become unattractive, and large Japanese corporations are flush with money and have become adept at raising whatever they want or need in the securities markets.

Still, it appears that the loan business in Japan has been lively until recently. The same bank claimed that its domestic assets had jumped in value by about 40 per cent in the past year. The reason is that medium and small companies and individuals have taken over as the banks' main customers, borrowing heavily for expansion or house building.

Now, with interest rates reaching 7 per cent, bankers are not sanguine that this will continue. There are also growing worries that many consumer loans will go bad if, as is widely feared, the growth rate of the Japanese economy slows down and the overtime portion of pay packets disappears. Also, the Government has been cracking down on bank lending for real-estate purchases. Since September, they have had to report every three months their outstanding balance of loans to non-banks, and the clear message is that the balance should not increase.

Meanwhile, sources of cheap money that have helped Japanese banks to be so competitive in the world are rapidly drying up, as the deregulation of interest rates continues. Next month, the smallest allowable unit of money market certificates will drop from Y3m to Y1m, effectively putting virtually all individual savings on market interest rates. The larger banks have been preparing for this change, and will be able to absorb it smoothly, if painfully. However, many small banks, especially in the Tokyo area, have been careless about interest rate risks in their rush to compete for loan business, and have a lot of long-term consumer loans on their books at low fixed rates.

As the squeeze continues, the possibility of mergers and other forms of restructuring in Japan's overcrowded banking sector could well increase. The big banks say they are not interested in adding more low-yielding assets to their balance sheets by taking over small troubled banks; but, given the opportunity to expand their retail networks, they will probably find it difficult to resist.

The competition for funds, especially from rich individuals, has increased significantly. The life insurance companies have developed their single premium insurance policies, competing directly with the long term credit banks's debentures. More recently, the securities companies have stepped up the marketing of their money market funds, which has cut into the city banks' short term deposits.

These moves suggest that the barriers between different types of banks are beginning to fall but, as with many things in Japan, it would be rash to predict that change will happen quickly in this area. The trust banks, which have been particularly successful in recent years, are resisting any intrusion into their field, and the long term credit banks, led by the influential Industrial Bank of Japan, are reluctant to give up their exclusive right among banks to issue retail savings debentures. The betting is that the trust banking sector is likely to open up first, mainly because it is of relatively recent vintage and lacks deeply entrenched rights, but not for at least a year.

As for the more controversial barrier between securities business and banking business, bankers have turned pessimistic on the prospects of an early revision of the Securities and Exchange Act. Japan's political situation has become more complicated since last July's election in which the ruling Liberal Democratic Party lost its majority in the upper house of the Diet. The securities industry has been resisting the entry of banks into its field ferociously, and has such wide support among important politicians that it would be able to block any legislative initiative to permit it.

If the climate in Japan's banking sector does continue to get more severe in the next few months, bankers will be taking a harder look at all their assets, including the huge portfolios of securities of client companies they hold. Up to now, the cost of carrying these low-yielding so-called strategic holdings has been offset by business given the bank by the clients and, in most cases, by the rapid increase in the market value of the shares. But now that the big corporations are not taking out loans any more, and the outlook for the stockmarket looks less buoyant than in the past, these portfolios could be sold off.

Some of these hidden assets are already being sold to cover the huge losses Japanese banks took following the agreement last month to restructure Mexico's debts. The 29 Japanese banks involved agreed to take combined write downs of Y1,300bn on their Mexican loans. They can manage this with ease, because of their hidden assets. DKB, for example, has unrealised securities gains of Y4,850bn; Mitsubishi Bank, Y4,540bn. But the experience, and the knowledge that more write offs will be necessary on other Latin American country loans, is dampening interest in doing business in developing countries.

JAPAN'S TOP BANKS: 1989 ($m)

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Dai-Ichi Bank	11,036	2.66	2,871	414,996
2 Sumitomo Bank	10,543	2.58	3,149	408,983
3 Fuji Bank	10,470	2.70	2,867	387,511
4 Mitsubishi Bank	10,239	2.68	2,643	382,500
5 Sanwa Bank	9,331	2.50	2,479	375,014
6 Industrial Bank of Japan	9,302	3.17	1,463	293,415
7 Japan Development Bank	6,291	9.67	821	65,054
8 Tokai Bank	6,206	2.59	1,026	239,813
9 Mitsui Bank	5,810	2.63	1,300	221,513
10 Long-Term Credit Bank	5,528	2.80	869	197,476

Figures are consolidated, except Tokai Bank

Source: The Banker

FUND MANAGEMENT

Foreigners' chance

FOREIGN FUND managers this year break into two new areas of Japan's giant fund management business.

Nobody is expecting them to make much of a dent, at least in the short run, into the businesses of the country's well-entrenched trust banks, insurance companies and investment trust companies. But the longer-term implications of sharpening up competition in the business could be significant.

The moves from Japan's Ministry of Finance come in two areas: the Y60,000bn yen investment trust business, and the Y30,000bn corporate pension market.

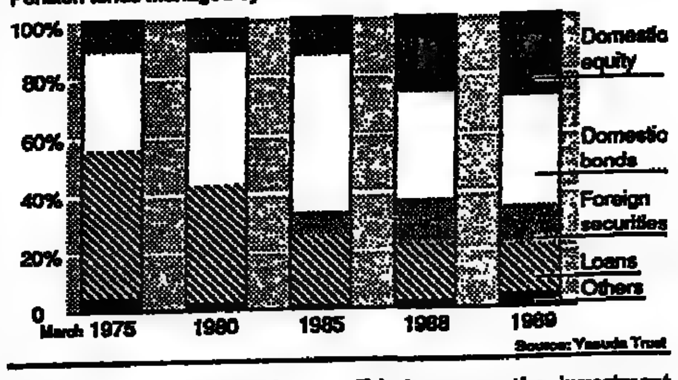
The long-expected change in the investment trust regulations was announced with guidelines that were published in December. Officials say the guidelines attempted to establish a level playing-field between foreign and Japanese companies, acknowledging that the former face more formidable obstacles in establishing a business than their rivals.

In licensing new foreign entrants, the MoF will take into consideration their record in their home country, and will allow them a five-year grace period before they have to turn in a profit, compared with the three years which applied to Japanese applicants.

The ministry is now processing applications, which had to be in by the end of February. A flood of new entrants is not expected, however. At least four firms are believed to have applied: Warburg and Montagu Investment Management, from the UK; Fidelity, from the US; and Jardine Fleming.

Historical changes in asset allocation

Pension funds managed by trust banks



Source: Yasuda Trust

The most powerful investment trusts in Japan are linked, though at arm's length, to the biggest securities houses. Nomura Investment Trust, the largest, with $110bn of assets under management, is 5 per cent owned by Nomura Securities, and they often swap personnel. According to Mr Akira Shimizu, executive managing director, some 80 per cent of its trusts are sold through Nomura's big network, and the rest through other smaller brokers.

This makes the market a tough one to crack. Foreign companies may be helped by a growing interest among Japanese investors in investment overseas. Traditionally, as Mr Shimizu says, the investment trust business has always been one of low-risk and modest return.

That is beginning to change: there is more demand now for higher-risk investments, which have the potential for better rewards; and, as part of this pattern, overseas investment is becoming more popular.

There is a growing awareness even among retail investors of performance – particularly in view of increasing competition from banks, which, because of deregulation, can now offer higher interest rates to attract deposits – which is likely to put the established operations on their mettle.

Foreign sponsors may see their best chance of breaking into the market through the smaller institutional buyers of the funds, such as small regional banks. But success in the business will demand some distribution capability among retail clients. The most likely way to obtain that would be to establish links with some of the 200 or so regional securities firms across the country.

The other major change takes place from the beginning of the new financial year in April. This will allow asset management companies – of which there are about 140 in Japan, about a quarter of them foreign – for the first time into a sector of the corporate pension fund market.

Foreign trust banks in Japan have already had some modest success in managing pension funds for the public sector, where the Ministry of Health and Welfare has recognised the fund management skills of foreign companies.

Here again, though, the changes will initially be at the margin, with the Japanese trust banks and insurance companies that currently monopolise the market noticing little initial impact.

It is in the so-called employee pension funds that the biggest changes are taking place. Unlike the UK, where final salary-related schemes operated, pensions in Japan guarantee a nominal income on retirement.

Outside managers may, under the new rules, be brought in to manage up to one-third of the existing assets and new money of the roughly 700 employee funds which are more than eight years old, provided they have at least Y1bn in assets. The money will have to be operated within the ministry's guidelines, which currently allow up to 30 per cent to be invested into domestic stocks, the same amount in foreign securities, and up to 20 per cent to be placed into real estate. At least 50 per cent has to be invested in yen assets, for which the principal payment is secured.

The trust banks and insurance companies are quite sanguine about the prospects for this new type of competition. For one thing, there is not much evidence that the changes have been demanded by consumers.

Japanese insurance companies have until now managed just about all their pension fund assets in a pool, from which all participants gain similar returns. The reforms mean that they, too, will be able to offer asset management services, the performance of whose funds will be separate from the pool. Under other rule changes, they will also be able to offer new products to tax qualified funds.

Mr Tomohiro Kawase, senior manager of Nippon Life's finance and investment planning office, said: "We don't see the changes making a big difference to us."

Apart from the slow start for the new entrants, most fund managers seem to agree on two other things: the continued and growing importance of foreign investment. Events such as the market collapse in February in Tokyo – which had little effect on the London and New York markets – underlined the importance of asset diversity.

On top of that, there will be a greater western-style emphasis on performances. Performance measurement companies are already establishing offices in Tokyo, and the trend will be for more scrutiny of pension fund performance. Provided they are as good as they say they are, these factors should, over time, rebound to the benefit of foreign fund managers.

Stephen Fidler

MERGERS and ACQUISITIONS

Less shameful than it was

TALK TO any investment banker in Tokyo, and it is not long before the conversation turns to the fast-growing mergers and acquisitions business.

Indeed, the term M&A has become so popular that it now tends to be used more frequently than *baishu* in the Japanese business lexicon.

The big banks, the securities firms, and the giant trading houses are all putting some of their brightest managers into new departments, which are scouring the world for potential cross-border acquisition targets and beginning to focus on the domestic opportunities for corporate restructuring.

Japan is the world's biggest creditor nation, and its flow of overseas investment is accelerating at a time when many less well financed predators are retreating from the corporate arena. The world's finest M&A merchants are flying in and out of Tokyo's Narita airport with increasing regularity.

It is too early yet to know who the winners will be. Some specialist boutiques, like the US Blackstone Group, have been extremely successful at bringing deals to the Japanese. Wasserstein Perella, one of the youngest and more successful US firms, has set up a local joint venture with Nomura; while others, ranging from the giant Industrial Bank of Japan to Goldman Sachs, County NatWest and Morgan Stanley, are pursuing more independent strategies.

The sight of Mitsubishi Estate buying control of New York's Rockefeller centre, Sony acquiring CBS Records, and Firestone falling to Bridgestone shows that the Japanese are finally taking their place alongside the British as major players in the US M&A market.

On the domestic front, there are also signs that the rigid corporate structures are beginning to disintegrate. Whereas in the past it had been largely master-minded by Japanese Government organisations, like the Ministry for International Trade and Industry, now there is increasing evidence of Japanese companies taking the initiative.

The $23bn merger of Taiyo Kobe and Mitsui Bank into the world's second biggest bank; Boone Pickens' attempts to get a seat on the board of Koito Manufacturing, where he is the biggest shareholder; Shuwa Corporations's efforts to shake up the fragmented Japanese retailing system – all these are signs of the increasingly rapid pace of change in Japan.

"Four years ago, no Japanese company would think of coming to our bank and asking us to find a buyer," says Mr Akio Asuke, general manager of Sumitomo Bank's investment banking department. "To sell one's company was considered a shame on the family." However, these sorts of inhibition are changing fast, and Mr Asuke says that his department now has lots of requests from clients seeking buyers for their business.

Many of the entrepreneurs who established new businesses in Japan after the war are close to retirement, and it is no longer obligatory for their sons to follow in their footsteps. Consequently, more and more local companies are putting themselves up for sale.

At the moment, the market is mainly in Japanese companies wanting to find Japanese purchasers. But just as European hostility to American takeovers subsided after the 1960s, Mr Asuke believes that the climate in favour of foreign takeovers of Japanese companies is beginning to turn.

Nevertheless, like almost all Japanese bankers, he draws the line at hostile takeovers. If a major US corporation came to Sumitomo and asked it to act on its behalf in a hostile takeover of a listed Japanese company, it would be politely shown the door. There have only ever been three domestic takeover bids in Japan, and while there have been considerable changes in Japanese business culture, it is hard to see a banker like Mr Akuse ever talking the same language as a corporate raider like Mr Pickens.

■ Boone Pickens talking to reporters, in June, about his attempt to get a seat on the board of Koito Manufacturing

However, it would be dangerous to underestimate Mr Pickens. Having tired of hunting down poorly managed US oil companies, he has taken to harassing the management of a Japanese auto parts company in which Toyota and Matsushita, two of Japan's blue-chip stocks, have significant stakes. Given the scale of his investment, his manoeuvres cannot be ignored. At a time when there is growing criticism of some Japanese takeovers in the US, Japanese attempts to block Mr Pickens and his friends could backfire.

While many foreign investment bankers like to distance themselves from Mr Pickens, in order not to offend their new clients, it is clear that most believe that Japan is the next great area for corporate restructuring. The possibilities in the US have been largely exploited, and those that are left have been rendered far less feasible following the collapse of the junk-bond market, one of the main sources of finance.

Japan should be an investment banker's paradise. It is full of wealthy companies; Japanese share prices generally go up when a company announces an acquisition; and, even if they did not, Japanese managements do not share the same short-term western concerns about diluting earnings per share. When it comes to buying a company, financing is the least of the problems.

This has led to a belief in some quarters that the Japanese are prepared to pay over the odds for overseas acquisitions. Dainippon Ink and Chemicals' $553m tender offer for Reichold Chemicals in 1987 began as a hostile offer. But it was very much the exception; Japanese companies prefer to do friendly deals, and sometimes may have to pay more as a result.

However, they have a much longer investment time horizon than most of their western competitors and given that their cost of capital is often only 1 per cent or 2 per cent they can afford to pay a little more.

"These guys really are strategic thinkers," says Richard Kelly, a managing director in CS First Boston's Tokyo office. "They think first and foremost about what business they are in; what strategy they need to be successful; and what time-frame they are considering. It is only then that they begin to think about price. The Japanese are not bottom-fishers: if something is cheap but not strategic, they do not do the deal," says Mr Kelly. "There has been a cultural realisation among Japanese executives that, rather than go it alone with green-field investments, the M&A business is becoming an accepted tool to achieve corporate objectives."

In many respects, the Sony and Mitsubishi Estate mega-deals are atypical. Nippon Steel's $185m investment in Inland Steel or Kawasaki Steel's $350 joint venture with the Eastern Steel division of Armco will be much more the norm. The Japanese have the capital the US firms need, but Japanese companies are wanting something more in many cases. Strategic alliances are much preferred to opportunistic bids where the management then walks out of the door.

Indeed, despite all the publicity given to deals like Mitsubishi Estate's Rockefeller Centre investment or Sony's appetite for US media assets, Japanese companies are still only minor players in the global M&A business. According to CS First Boston, Japanese companies did 298 transactions last year, worth $17.8bn. This compares with the 5,558 transactions totalling $114m done by European companies and the 2,366 deals totalling $221bn done in the US.

The number and size of Japanese deals in the US is accelerating. In 1986, CS First Boston's figures show Japanese companies consummating 81 deals totalling $3.7bn. Last year there were 187 deals totalling $14.7bn, but over 80 per cent of these were for sums of $100m or less. By contrast, activity in Europe is far less advanced, with an estimated 81 transactions totalling $2.4bn. The restructuring of Japanese industry is accelerating.

William Hall

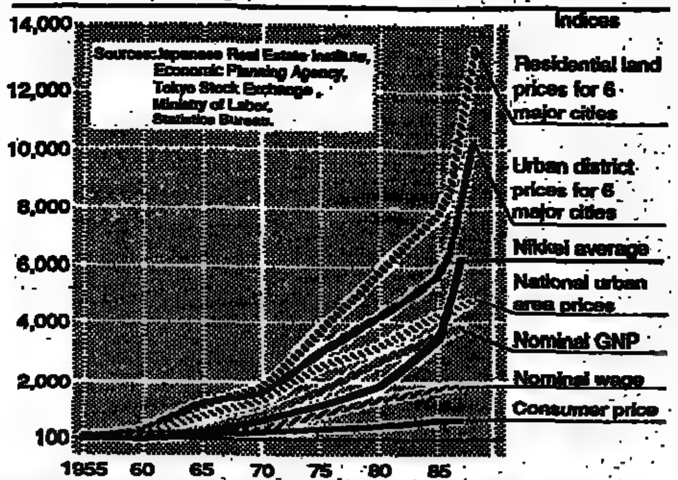
JAPANESE MERGERS AND ACQUISITIONS: number of transactions

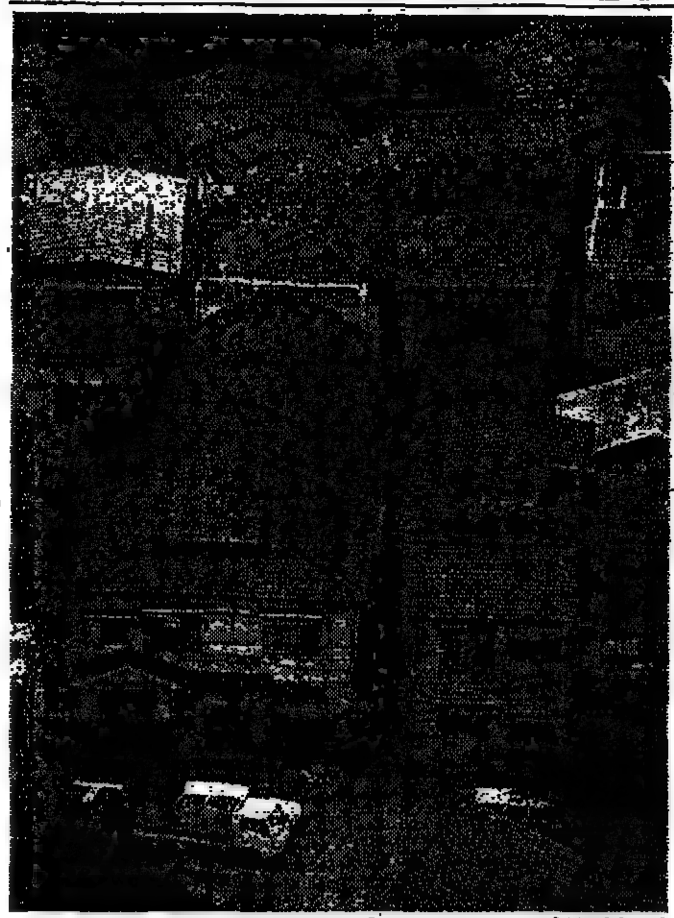
	1985	1986	1987	1988	1989*
Japanese buyer/Japanese seller	163 (56.4%)	226 (50.0%)	219 (46.7%)	233 (40.2%)	178 (36.9%)
Japanese buyer/overseas seller	100 (34.6%)	204 (45.2%)	228 (48.6%)	315 (56.6%)	294 (60.9%)
Overseas buyer/Japanese seller	26 (9.0%)	21 (4.7%)	22 (4.7%)	17 (3.1%)	11 (2.3%)
Total	289	451	469	565	483

*January-September

Source: Yamaichi Securities

Rise of land prices





Ashley Ashwood

Crowded, but it's home: the Shinjuku area of Tokyo

Land prices are sky-high, largely through factors that restrict its supply says **Stephen Fidler**

If there's a tremor, the world will feel it

JAPAN'S SKY-high land prices are becoming an issue of great concern at home and increasing disquiet abroad. The high price of land is bringing huge disparities of wealth, and tearing at the social fabric.

Overseas, it is seen as the lever through which, because it feeds so quickly into rising share prices, allows Japanese companies to raise capital more cheaply than any others in the world. This means many companies in the rest of the world are vulnerable to a Japanese takeover, while Japanese companies are effectively take-over-proof.

Partly for this reason, land prices in Japan have become an issue in the meetings between finance and trade officials of the US and Japan, under the Japan-US Structural Impediments Initiative.

The question has also come to the forefront of the current internal Japanese debate about monetary policy. To the Bank of Japan, the country's central bank, asset price inflation threatens to feed an inflationary mentality in the country. It is one reason why it has favoured raising official interest rates, contrary to the wishes of the powerful Ministry of Finance.

Research by Mr Yukio Noguchi, Professor of Economics at Hitotsubashi University, shows that three years ago residential land prices in metropolitan Tokyo were 30 to 60 times those in the centre of London in 1987.

A sharp relaxation in monetary policy in 1985 seems to have given already-high prices another spur, with those in the Tokyo area rising by more than 75 per cent in 1987. Although that rate of growth has subsided, the ripple effect of that has spread to other big cities in Japan.

But Mr Noguchi's work has also shown that rents in the Marunouchi, one of the central business districts of Tokyo, are only about double those in London. For an economist, this is confusing, because the price of land is supposed to be equal to the discounted present value of all future rents. Something other than the rental income is at work, pushing land prices higher.

Ask many Japanese, and they will say that the ownership of land has an almost mystical value to his countrymen. But there is a need for a more convincing explanation. Clearly, the growing internationalisation of Tokyo and its importance as a financial centre have increased demand for land in the centre of the capital, as have years of economic growth and, more recently, loose monetary policy.

But most explanations of why the price is so unusually high stem from factors which restrict new supplies of land. According to Mr Noguchi, two elements stand out: the distortion in the tax system; and the country's land and building lease law. Both restrict the supply of new land and its rate of turnover, estimated by some to be about 2 per cent a year in Tokyo.

A sharp relaxation in monetary policy in 1985 seems to have given already-high prices another spur, with those in the Tokyo area rising by more than 75 per cent in 1987

The tax distortions are twofold: inheritance tax and property tax. Because land values are assessed for both at levels that are significantly below market values, there are significant benefits to the holding of land. Many Japanese endure much trouble to ensure that they leave their children land, rather than financial assets. In Tokyo these days, land for inheritance tax purposes is assessed at about one-third of its market value – up from about a half a few years ago.

A different, but still low, assessment – around Tokyo it is often below 10 per cent of market value – is made for property tax. According to Mr Noguchi, the tax rate on property is about 1.4 per cent of the land values.

If that encourages people to own land and not to sell it, the land and building lease law is said to encourage its under-utilisation. Introduced during the second world war, to prevent landlords from harrassing women whose husbands were away, it has remained on the statute books, providing extraordinary rights for tenants. Once in place, it is almost impossible to remove a sitting tenant through legal means. Many people prefer simply to hold on to sites and enjoy the expected capital gain, rather than endure the hassle of tenants, which will actually reduce the capital value of land. For this reason, even close to the centre of Tokyo, derelict sites abound.

Two other factors are often cited as contributory causes. The first is the country's zoning laws. In many housing areas, houses are not allowed to be higher than 10 metres, which restricts the number of high-rise housing developments that are possible.

Another problem is the even lighter tax rate accorded to farming land in residential development areas. A study by the Economic Research Institute of the Government's economic planning agency shows the average farmer in Kanagawa prefecture, the area around Yokohama, paying an annual Y7,600 in property taxes, compared with Y2.9m for somebody owning the same area of housing land – the difference, a factor of 380.

This is why, even close to city centres, farmers are still tending postage-stamp paddy-fields that would be uneconomic if they were to pay even the usual property taxes.

The econometric study, led by Mr Itaru Ando, suggests that bringing farmland in city areas gradually to the same level of taxation as residential land, would result, over a 10-year period, in a 25 per cent drop in land prices, given its assumptions.

Yet, while reform is widely seen theoretically as essential, something like 60 per cent of the Japanese are owners of land in some form. In Tokyo, counting those who will benefit from inheritance, the figure goes up to 80 per cent. It is thus difficult to forge a consensus for reform when many will see it, rightly or wrongly, as against their personal interest.

Encouraged by distortions in the tax system, people hold on to land because they expect capital gains. Since the market, except for a brief period in 1975 following the first oil price shock, has always delivered capital gains, people continue to believe that it always will.

After 40 years of price rises, most landowners are sitting on big capital gains, and most will have a good cushion to take losses. Even the banks, which have fuelled the latest speculative push in prices by lending, using real estate as collateral (often to buy more real estate), should be fairly secure.

But there are still valid questions about what would happen if people's expectations started to change because prices stopped rising for a long period, or started to fall. If land prices crack, that could bring the stockmarket, now the world's largest, crashing in its wake and export this instability to the rest of the world.

By acting now on its concern about land prices, the Bank of Japan is showing its desire not to find out the answers to these questions.

Loans now span the generations

JAPAN'S HIGH and rising land prices mean that an increasing number of average salaried workers can no longer think about buying a flat, let alone a house.

But, for the shrinking number who can afford a deposit, a housing finance company has just introduced a 100-year, three-generation loan.

The problem is particularly serious in Tokyo, where a recent surge in land prices has forced people to move farther and farther out of the city in search for a home.

A first-home buyer, hoping to purchase a reasonable flat of about 75 square metres, must look to areas 40 kilometres out of Tokyo, or beyond, and could easily face a commute of two hours from Tokyo's main business district.

According to a study by the Real Estate Economy Institute, last year the average first-time home buyer had a fairly reasonable chance of purchasing a flat at a cost of Y32m (£127,000). He would require at least Y7m in savings, and have to borrow an additional Y25m on a 35-year mortgage with the Housing Loan Corporation or a 25-year mortgage with a bank. Monthly mortgage payments would amount to between Y140,000 and Y150,000.

The same study found that flats costing Y32m or less could be found only in suburbs 40 kms from Tokyo, on a handful of out-of-the-way railway lines running to the north-east of the city. More popular flats, even within the 40km range, cost at least Y10m more.

An official at the Housing Loan Corporation explained that he had just bought a home outside Tokyo, and spent two hours riding into work every morning. "I can do it in an hour and a half," he said. "But if I take the slower train I can get a seat and sleep all the way into town."

If he misses his last train home, he can spend the night in one of the many capsule hotels – a bed over a sink, in a coffin-sized room – that have sprung up all over Tokyo, as land prices have risen.

First-time home-buyers generally rely heavily on a variety of housing loans to finance their purchase. Both public and private loans are available, and most people use a combination of several loans. The most popular is one from the Housing Loan Corporation, which is a public organisation.

The corporation's loan limit depends on the size of the housing unit. For a home of more than 60sq m but less than 155sq m, located in a building of more than six storeys, the maximum loan is Y18.2m. This is also the most popular loan.

The popularity of the Housing Loan Corporation's loans stems, not surprisingly, from its low interest rate. The initial interest rate of 4.7 per cent is significantly below rates offered by banks, which are now at about 7.5 per cent. The problem, however, is that the qualifications for a Housing Corporation loan are fairly rigid. Unmarried men, for example, are eligible only if they are aged 35 or above.

The Pension Welfare Service Public Corporation, on the other hand, offers a housing loan to anyone who has subscribed to one of its pension plans for a certain number of years. The problem is that those who have dutifully paid their pensions for 10 to 15 years, can only borrow a paltry Y5.8m. A subscriber of 15 years or more is entitled to Y7.1m.

For those salaried workers who are wise enough to have planned their purchase years in advance, and are sedentary enough to have been employed by one firm for those years, there is a workers' property accumulation savings plan, which automatically deducts a certain amount from the subscriber's salary.

This plan, however, allows even unmarried men to take out loans, provided they satisfy the minimum requirement of having saved at least Y500,000 over a period of one year. Savings of over Y3m allow the borrower to take out a fairly generous loan of up to Y30m. Interest payments vary, depending on the amount borrowed, but range between 4.4 per cent to 5.75 per cent.

Large companies also offer company loans at low interest rates. Although the terms vary from company to company, the interest rates on company loans are estimated to be about two percentage points lower than bank loans. The availability of a company loan is a very important consideration for would-be employees, as is the quality of the low-rent company dorms available to young couples until they have saved enough to buy a home.

Despite the variety of low-interest loans available, most people still take the bulk of their housing loans from the local bank. This is mainly because the amount of money available from all the other loan institutions is inadequate, especially in Tokyo.

Interest rates on bank housing loans have risen above 7 per cent following recent rises in the official discount rate. But for those who are eager enough, it is possible to take out a two-generation loan – and even a three-generation one.

The idea of life-long interest payments, however, does not seem to appeal much to young men who are just beginning to think of starting a family. A recent survey found that over 20 per cent of men were willing to give up their own family name and assume the bride's family name, if that was what it took to marry someone with property.

Michiyo Nakamoto

The big brokers believe there's life after the market dive, but...

Diversification is on trial

THE RISE of the Tokyo stockmarket through the 1980s made life easy for the big four Japanese stockbroking companies.

The plunge in share prices will be a test of how well Nomura Securities, Daiwa Securities, Nikko Securities and Yamaichi Securities have prepared for the day the great bull run finally faltered.

"If this kind of market had happened five years ago," says Mr Hitoshi Tonomura, an executive managing director of Nomura, "We would have had problems. But now we have got various other businesses already built or being built, so I think we are in a much more comfortable situation."

The companies say that their real worries are long-term – Ministry of Finance-inspired plans for further cuts in broking and underwriting commission rates; the prospect that barriers restricting the entry of banks into the securities may be lifted; the constant challenges of expanding overseas.

Nevertheless, a prolonged decline in investors' interest in Japanese equities would have an ranging impact on the broker's businesses. Underwriting, own-account trading and broking would all suffer if investors were to stay away from the market for any length of time.

Even after a decade of internationalisation, the health of the Tokyo stockmarket is still the biggest determinant of the big four's profitability. Admittedly, Nomura's commission income from broking equities has fallen from more than 50 per cent of total revenues in the early 1980s to 43 per cent in the year before the October 1987 crash and 32 per cent in the six months to the end of last September. But that is by far the largest single component of profits, as it is for the other big four brokers.

Moreover, the brokers were shielded over the past year from a 16 per cent decline in turnover on the Tokyo Stock Exchange's First Section by a sharp increases in share prices. If prices, as well as turnover, now stay down, brokers' profits are bound to suffer.

Profits would already have been sharply lower had it not been for an explosion in equity-warrant trading since 1988. Investors were attracted to these highly volatile instruments by the prospects of large profits, while the market was soaring towards its record high, reached last December when the Nikkei index hit 38,915. In the six months to the end of September last year, the big four made Y139.4bn profit from warrants, or 21 per cent of their total profits. Nomura alone made 73.4bn, an increase of 89 per cent on the previous six months.

However, these profits relied on unsustainably wide spreads on the secondary market. On the insistance of the Ministry of Finance, new rules are to be introduced to make trading more transparent and prevent brokers taking advantage of unwary investors. The profit margins will evaporate.

The big four are expected to report record profits for the year to the end of March 1990, with the full benefit of the warrants boom. Nomura is likely to make around Y530bn pre-tax, an increase of 7 per cent; Daiwa Y350bn, up 12 per cent; Nikko Y290bn, an increase of 13 per cent; and Yamaichi Y250bn, up 15 per cent. However, the year from April 1 could look very different.

The big four have been trying to diversify their businesses since the mid-1980s. Nomura, in particular, has been attempting to transform itself into a widely-based financial services group – encompassing leasing, real estate, mergers and acquisitions and banking, as well as securities. Mr Tonomura says: "Historically, our strength has a been based on the Japanese economy, and our main products have been Japanese securities. The economy is strong, but there are temporary breaks in the Tokyo market. So we now need to build an all-weather type of institution."

Setting out the goal has been easier than achieving it. Particularly in New York, the big four found that their local competitors were too tough in the mainstream equities business. So they cut their operations, to concentrate on profitable areas, particularly those businesses where they could serve Japanese clients. In the six months to the end of September, Nomura and Yamaichi turned from profit to loss in New York, and Daiwa and Nikko increased their profits.

For all four companies, New York is a source of new ideas as well as of profits – a "research and development centre", in Mr Tonomura's words. New products for sale in Japan include mortgage-backed securities, backed by US real estate assets.

In London, the big four have been much more successful, principally because they could rely on servicing Japanese borrowers and lenders in the Euromarkets. They have expanded from this base into local markets, notably the UK, and have found it easier to make headway than in the US.

Nevertheless, Nomura estimates that three-quarters of its business in overseas offices is with Japanese companies or their subsidiaries. Moreover, less than 10 per cent of total group profits for the big four come from their overseas subsidiaries.

They believe the proportion will grow, though less rapidly than they hoped in the mid-1980s when they plunged headfirst into globalisation. The emphasis now is on putting profit before market presence, and on using the interests of Japanese investors as a base for building foreign businesses.

This does not rule out bold moves – such as the alliances all four companies have struck with foreign groups in the mergers and acquisitions field. Nomura is the acknowledged leader with its \$100m investment in Wasserstein, Perella, the Wall Street corporate finance company. It has also forged links with Banco Santander, a Spanish group, and is considering an alliance with an un-named French financial institution. As a senior manager at one of the other big four says: "Human resources are the limiting factor in diversification. Nomura can afford to take more risks than we can. We will go step by step."

Even if the Tokyo market recovers unexpectedly quickly, the big four have good reason to continue diversifying. Brokerage commission rates are likely to be cut again this year, in response to investors' complaints about the cost of dealing in Tokyo. The fixed rate structure will not be abolished as in New York and London, however. Similarly, underwriting fees are expected to be reduced.

Under pressure from the finance ministry, the big four have also steadily reduced their share of turnover on the Tokyo stockmarket, to below 40 per cent from over 55 per cent five years ago. Some of this business has gone to big four affiliate brokerages, such as Nomura's Kokusai Securities. But some has been lost to genuine competitors, including foreign companies. The finance ministry, anxious to rebut charges that the big four can manipulate the Tokyo market, last year set a rule prohibiting a broker from handling more than 30 per cent of the daily dealings in any one stock.

The four have accepted these changes in rules and rates with little protest for fear of antagonising the ministry over a much more fundamental issue – the possible revision of Article 65 of the Japanese Securities and Exchange Law, which bars banks from the securities business.

The banking bureau of the finance ministry has advanced a plan that would allow banks to enter the securities market through separate subsidiaries, or through a a single investment-banking subsidiary. They would, however, be restricted to institutional and corporate customers, not individuals.

The securities bureau, which tends to represent the securities companies' interests in the ministry, is opposed to the reform. But Japanese stockbrokers are starting to believe that some changes are inevitable. Yamaichi's Mr Inoue says: "I think we have got to be prepared for som kind of change in the status quo. I think that's the reality of the situation."

Nevertheless, the law is unlikely to be changed before next year, at the earliest. Even if banks are then admitted, the executives of securities companies can congratulate themselves for having maintained their defences for so long.

Stefan Wagstyl

■ How Japanese securities firms train their "company men" – page 12 of this survey

Medium-sized firms prosper through their banking links

MIDDLE-RANKING Japanese securities companies, which have lived in the shadows of the big four for the entire post-war period, are about to make the rest of the world sit up and take notice.

Financial liberalisation in Japan will continue to weaken the relative power of the big four – Nomura, Daiwa, Yamaichi and Nikko – while elevating to prominence a select group of medium-sized houses.

The trend is already clearly noticeable. The big four's share of dealing on the Tokyo Stock Exchange has fallen from 70 per cent in the 1960s to about 40 per cent last year.

Foreign brokers have, since their first entry into the TSE in September 1986, accounted for some of that loss. Foreigners took 6-to-7 per cent of TSE dealing last year.

However, the main culprits responsible for the loss of share for the big four have been aggressive, medinm-sized, mostly bank-affiliated, Japanese securities houses, such as Nippon Kangyo Kakumaru Securities, New Japan Securities and Meiko Securities.

The medium-sized brokers have grown, thanks to their sharp focus on building up branch networks to cater to retail clients, at a time when small-investor interest in securities investment has been booming.

While the balance of personal savings has nearly tripled to Y960,000bn over the past decade, the share of savings invested in securities more than doubled to about 21 per cent. Thus the potential pool of small-investor funds to be moved around the market has more than quintupled over the decade, creating a commission bonanza for retail brokers.

And, despite the Tokyo market's recent weakness, medium-sized brokers are likely to prosper and grow in relative size and profitability in relation to the big four for years to come.

"Over the medium term, as Japan becomes more affluent, individuals are becoming aware of savings alternatives," says Paul Heaton, Japanese securities industry analyst at W.I.Carr (Overseas). "In such an environment, securities companies whose business depends on individuals will continue to prosper."

Two factors have played together to direct most of the benefits of the Japanese securities investment boom towards the bank-affiliated brokers. One has been deregulation, which has seen commission rates on large stock transactions slashed by 58 per cent over the past decade. However, small-lot commissions have remained fixed. This has hurt the big four, which depend heavily on institutional dealing, while leaving retail brokers unscathed.

The shift in brokerage rates in favour of retail brokers looks set to continue. "During the next decade we expect to see lower commissions on big deals, but we doubt that small-deal rates will be reduced significantly," says Mr Heaton.

The second factor has been the backing and technical support of rich bank shareholders, which has enabled a continuous programme of branch expansion while building up previously non-existent income streams from underwriting, bond dealing and international business.

Typical of the medium-sized brokers that have prospered on retail network expansion and bank affiliations is New Japan Securities, an associate of the global banking and financial markets powerhouse, Industrial Bank of Japan.

New Japan is Japan's fifth-largest broker, and by the standards of the Japanese industry is still quite small in relation to the big four. Its total revenues are less than half those of the smallest of the big four, Yamaichi.

Yet, like many medium-sized Japanese brokers, by world standards New Japan is already a force to be reckoned with. With revenues of more than Y200bn, more than Y2.8,000bn under custodial management, 6,500 employees and 85 branches – 13 of them offshore – the company is hardly a minor league player.

The shift in brokerage rates in favour of retail brokers looks likely to continue

New Japan international division director, Mr Yukio Unno, says that the company has a two-pronged business strategy. This entails a continuation of the steady build-up of the retail business, while simultaneously expanding areas such as futures and options dealing, bond dealing, underwriting, international operations and mergers and acquisitions advice.

All the newer activities, which each account for a small percentage of the company's revenues at present, will require a gradual change in the company's emphasis over time towards corporate and institutional broking.

About 80 per cent of New Japan's commission income comes from retail brokerage, and that will not change quickly. A good share of that income comes from the group's burgeoning investment trust operation, Taiyo Securities and Investment Trust & Management, which manages Y2.8,000bn on behalf of 800,000 small investors.

Despite their surging revenues, several question-marks hang over the ability of bank-affiliated Japanese broking houses to become international players such as the big four. The main question still to be resolved is on how the Ministry of Finance will allow the bank-securities company relationship to develop.

Section 65 of Japan's Securities Industry Law forbids banks to own more than 5 per cent of brokerage houses. Although some banks, especially Sumitomo, have got around this problem by using friendly associates to hold shares, limited capital bases have hampered the role that bank affiliated brokers can play in some activities, especially the lucrative underwriting game.

Japan's Financial Systems Research Council has recommended that banks be eventually allowed to enter the securities business – opening the way for the banks one day to absorb their broking affiliates. However, resistance to this proposal from the big four brokers, which at present outweigh bankers in the political world, is likely to remain strong.

The big four know all too well that the marriage of a financial giant, such as the Industrial Bank of Japan, with a strong retail broker, such as New Japan, would be tough to match, and they are determined to fight all the way.

Mr Unno says that, at present, it appears that IBJ – which has three directors on New Japan's board – may never be allowed to absorb the broker. However, he says co-operation and ties between the two will inevitably increase:

"For the time being, New Japan and IBJ co-operate with each other whenever we can. IBJ can't do securities business in Japan, and we can't do any banking business, but we can definitely help each other. But nobody can forecast what will happen five or 10 years from now."

Rex Brown

Bank-broker connections in Japan

Bank	Broker
Industrial Bank of Japan	New Japan Securities Wako Securities Okasan Securities
Dai-Ichi Kangyo Bank	Nippon Kangyo Kakumaru
Sumitomo Bank	Meiko Securities
Fuji Bank	Daito Securities
Sanwa	Towa Securities
Mitsubishi	Ryoko Securities
Mitsui	Kyokuto Securities Shinyei Ishino
Long Term Credit Bank	Dai-Ichi Securities
Daiwa Bank	Cosmo Securities
Tokai	Maruman Securities
Nippon Credit Bank	Fukuyama Securities

EQUITY WARRANTS: unless new issues are forthcoming, the market faces a period of natural shrinkage, says **Stephen Fidler**

Efforts to reform may be irrelevant if the bull run is over

THE 1990s have already brought two significant threats to the Japanese equity warrant market: the chance that the Ministry of Finance would clamp down on it, and the severe weakness shown by the Tokyo stockmarket in the first two months of the year.

Securities houses appear to have secured a compromise from the MoF on the first issue, conceding greater transparency for investors in the market but avoiding aspects of the ministry's original proposals that they believed would have severely dampened trading.

On the second issue, they are more helpless. Despite efforts to shore up confidence, there is a growing view that the Tokyo bull market, which allowed many in the equity warrants business to sustain such a rich living for the last two years, is over.

The consequences of that are not just significant for the Tokyo market – it has been the second most profitable business area for several of the big Japanese securities firms – but also for London. With the Eurobond market otherwise in doldrums, the substantial crumbs from the equity warrants table that have fallen to non-Japanese underwriters have been critical in sustaining some Eurobond operations in the City.

Equity warrants are essentially long-term call options – the right, but not the obligation, to buy shares in specific companies at a predetermined price. Hundreds have been issued through the London market, attached to bonds paying low-interest rates. The warrants are stripped from the bonds, which have tax advantages for some Japanese investors, and trade on their own.

Estimates vary, but at least 70 per cent of the market comes back to Tokyo, and many of the warrants are sold to individual investors looking for a highly-geared bet on specific companies.

The issues brought Japanese companies a very cheap source of funds. Swapping the dollar proceeds back into yen has at times over the last two years allowed companies to borrow at negative interest rates. But since then, with the differential between US dollar and yen interest rates narrowing, swapping funds in this way became less and less attractive. Even before the two developments emerged which have worried equity warrants traders this year, Japanese companies started to step up issuance of equity warrant bonds denominated in yen in the Tokyo market, a potential problem for the City.

The Japanese Ministry of Finance was undoubtedly worried by the vast profits being generated by the business, and was apparently receiving an increasing number of complaints from small investors that the prices at which they were buying warrants was often way above a fair market value. While the market continued to go up, this was less obvious because everybody, including the small investor, seemed to make money.

The ministry was apparently also sensitive to claims that warrants had been used to sweeten deals for larger clients, which could be hidden by the lack of price transparency. According to one dealer, the ministry's objective was to make sure prices were transparent, fair across the market, and that investors were protected. This resulted in a proposal that equity warrants should be listed on the Tokyo Stock Exchange. This suggestion, while not ostensibly motivated to attack the London market, was nevertheless taken by some foreign houses as just such a protectionist measure.

Many in Tokyo saw the Tokyo Stock Exchange with its matched-orders system as too cumbersome to trade such a highly geared product as warrants. Furthermore, over-the-counter trading in warrants could hardly be abolished, because the London market would continue to trade on that basis.

The securities firms responded with a suggestion which appears for the most part to have satisfied the ministry's objectives. They aim for improved market transparency by putting the prices of the 300 most actively traded warrants and the 500 less actively traded on screens which can be seen in stockbrokers' offices around the country.

On top of that, a broker's broker will be put in the centre of the market and will register trades. Such a development is likely to take place well before the end of the year, although the full scope of the plan does not yet seem to have been mapped out.

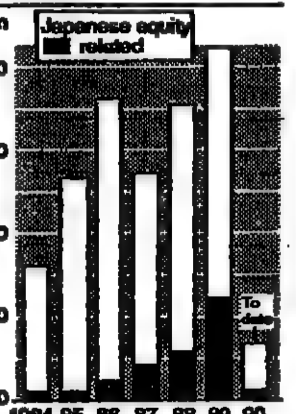
But these efforts to reform the market may be of little importance if the market itself disappears. Equity warrant trading volume by the big four securities companies was reportedly down to Y1,270bn in January, a 60 per cent fall from the levels in November and December. There was little evidence of any upturn in February, and late in the month, stock market gyrations meant the market was in suspension for long periods.

Although it is possible to use warrants in more sophisticated defensive investment strategies, there is little evidence, according to Japanese securities firms in Tokyo, that they are used much in that way in Japan.

For example, investors can hold warrants and cash in place of the underlying stock, allowing the investor to gain from any rally in the share price, limiting his downside loss to the extent of the warrant investment and allowing him to earn a yield on the cash that would be greater than the traditionally small dividend on the underlying shares. However, most Japanese buyers are little more than punters, whose interest in the product will surely wane if the market continues to fall or even if it steadies.

All this is happening at a time when the first equity warrants issues are starting to mature. More than 80 issues are estimated to be maturing this year, and the figure will double in 1990. Unless new issues are forthcoming – and that will only happen if the stockmarket is buoyant and dollar issuance remains competitive against issuing yen – the dollar equity warrant market is embarking upon a period of natural shrinkage.

Eurobond new issue volume



Source: Euromoney Bondware

The Government bond market

High yields could keep cash at home

THE SEEDS of the recent weakness of the Japanese government bond market were set as long ago as 1986. Then, under the auspices of the Louvre accord agreed among the Group of Seven industrialised nations, Japanese interest rates were brought down to prevent an appreciation of the yen against the US dollar.

This easing of interest rates to their lowest level since the war, culminating in the fall in February 1987 of the official discount rate to 2½ per cent, was in the view of some economists, too lax for the good of the domestic economy. This led, they believe, not only to sharp rises in the money supply, but to an explosion in land and stock prices. Ultimately, the overhang of domestic liquidity fed into the international markets, leading to weakness of the yen.

It was the weakness of the yen, and its potential consequences for inflation in Japan, that led to the latest bout of weakness in Japanese government bonds.

This was exacerbated by a highly public disagreement between the Bank of Japan and the Ministry of Finance over whether the official discount rate should be lifted from the 4¼ per cent level. It also occurred against a backdrop of rising long-term interest rates around the world, on the basis that the economic reforms in eastern Europe will suck in capital from the rest of the world and thereby raise its price.

In February, Japanese bond prices weakened such that the yield on the 10-year benchmark government bond rose above 7 per cent, despite the efforts of the Ministry of Finance to prop up the market through the purchase of bonds by its debt consolidation fund. It was the first time that the fund had been used since the period of weakness in bond markets worldwide in 1987, which preceded, and may ultimately have triggered, the crash of stockmarkets in October of that year.

To some followers of the market, those yields represent a buying opportunity. Some economists believe that concern about increases in retail prices has been overdone, suggesting that the core inflation rate is some 1½ per cent. This gives a significant real rate of return on Japanese bonds, not seen for years.

Nonetheless, most international investors will stay away from Japanese government bonds, because of the 20 per cent withholding tax levied on interest payments remitted overseas. There is evidence, though, that some investors exempt from withholding tax, such as central banks, began buying yen fixed-income bonds in February. Reports in Tokyo suggested the Saudi Arabian Monetary Agency, the Monetary Authority of Singapore and the Bank of England were all buyers, with purchases totalling about Y100bn.

Further evidence of growing interest in the field comes from the World Bank. Late last month, it launched a Y50bn bond issue in an attempt to establish a benchmark and take advantage of some renewed interest in the sector.

It was the weakness of the yen, and its potential consequences for inflation in Japan, that led to the latest bout of weakness in Japanese government bonds

The main question from an international perspective is the extent to which higher bond yields in Japan will divert the attention of Japanese institutional investors from foreign markets, particularly the US Treasury market, where they have been important buyers.

Although not strictly comparable, bond yields in Japan of around 7 per cent, compared with US Treasury yields of around 8½ per cent. That differential is the lowest for a long time, and barely enough to compensate the Japanese investors for the foreign exchange risk they run by buying dollars.

However, most observers believe there will not be a huge flight of funds from the US market to Japan, although new commitments seem likely to favour the home market more than in the past. Indeed, Japanese investors are already increasing their commitment to Japanese bonds.

There are two reasons most commonly cited for why there will not be a flood home. The first surrounds the weakness of the yen, which means that – after years of losing out because of the yen's appreciation – Japanese investors overseas are benefiting from currency movements. While they are enjoying the ride, they may be less inclined to get off.

The second concerns the relative lack of liquidity in their home market, compared with that of the US.

Despite expectations that the situation would have changed before now, an overwhelming amount of trading in the Japanese government bond market takes place in one 10-year bond issue. This benchmark – at the time of writing, the No 119 issue maturing in June 1999 and carrying a 4.8 per cent coupon – is established by market consensus. But because it is by far the most heavily traded issue, it carries a yield often significantly below that on other comparable bonds without benchmark status.

The benchmark affect has ameliorated somewhat over the years as foreign houses, particularly from the US, have attempted to profit by arbitraging the anomalies implied by this convention, while the development of the JGB futures also offers an interesting alternative for speculators to the benchmark. Nonetheless, most of the issues in the market are bought and locked away, making it very difficult to shake out sufficient blocks of bonds in sufficient size if buying suddenly stepped up.

Mr Kermit Schoenholtz, a vice president in the economics department at Salomon Brothers in Tokyo, said: "There is a trend over time towards increasing liquidity in a broader array of yen assets, but it's a development which has happened more slowly than many of us thought."

Bank of Japan: a public disagreement with the ministry

The other issue is the net redemption by the government of medium-term bonds. While not going so far as the British government in buying back bonds, it is issuing less than it is redeeming. This arises partly from the government's budget surplus, and partly because of the Ministry of Finance's policy of increasing issuance of short-term government paper. It has said it wants to see a market of about Y6bn in short-term government bonds.

According to Yamaichi Research Institute, net redemptions in the medium-term market stood at Y970bn in 1988 and grew to Y1,597bn last year. Its estimates put 1990 net redemptions at Y550bn.

In the primary market, some arguments have almost become a thing of the past. The main vestige of the old system, which denied foreign firms access to the new-issue market, is the fact that 60 per cent of the monthly auctions of 10-year paper still go to the traditional underwriting syndicates – although those syndicates now include some prominent foreign firms – including one, Salomon Brothers, on a permanent basis. The rest is auctioned. Foreign firms would still like to see the whole of the 10-year issue auctioned – it is, after all, the most significant maturity – but some of the heat seems to have gone out of the matter.

Stephen Fidler

Stephen Fidler *on short-term money markets*

The Bank lets go

THE UNDER-development of Japan's short-term financial markets has long been one of the sources of tension between the US and Japan.

Failure to develop adequate short-term markets, of the type common in most western developed economies, has hampered, the US has claimed, the use of the yen as an international currency.

The Bank of Japan, while sensitive to the US complaints, has had another perspective. Deregulation of the financial markets over the last decade has resulted in a fading of the effectiveness of the Bank's system of window guidance. It has found it much more difficult to influence monetary conditions, and the markets over which it had the most influence were declining in importance.

The Bank's official discount rate, the benchmark that used to lead movements of interest rates across the economy, has also become a lagging, rather than a leading, indicator of monetary conditions. Until as recently as last January, banks still based their short-term prime rate at a margin over this rate; but, since then, they have switched to a more market-related system of charging corporate customers, which is based on their average cost of funds.

The Bank's influence, for example, was high in the call money markets, in which banks are the only participants. However, because interest rates in these markets had been kept artificially low, banks with surplus funds were inclined to lend them where returns were higher – in the open, or *gensaki*, market, which is open both to financial and non-financial companies, or into the Euroyen market, outside Japan. So, while the call money market stagnated, these markets, in neither of which the Bank had influence, grew rapidly.

The most significant recent reforms were enacted in November 1988, and were intended to plug maturity gaps in the short-term markets. The Bank started to sell short-term discount bills – previously only issued in one-month to six-month maturities – of one-week, two-week and three-week maturities. In addition, the maximum maturity in the uncollateralised call money market was extended from three weeks to six months, while that in the traditional collateralised call money market was reduced to six days from three weeks.

In January last year, it further narrowed the minimum unit of dealing in the call money and bill markets to $\frac{1}{16}$ percentage point from $\frac{1}{8}$ point. In April, it decided to expand the bill and non-collateralised call money markets out to one year.

Following the practice, for example, of the Bank of England, in August it started to publish information about the demand and supply of funds in the short-term markets and its operations. In May, it added commercial paper – short-term corporate IOUs – to the range of instruments in which it was willing to conduct open-market operations, a move further supplemented by the addition of treasury bills to the list in January.

These moves have allowed the maturity focus of the central bank's open-market operations to shift right towards the short end of the maturity spectrum, concentrating on maturities of up to three weeks, when previously the focus had been out to three months. As a Bank of Japan official explained:

"Speculation on the path of future interest rates starts in the two- to three-month area, while in the shorter-term markets there is much smaller pressure of expectations. We can now leave the market to decide the level of the three-month bill."

In other words, the less influence the central bank has on longer-term interest rates, the better.

The reforms, while widely welcomed, have not solved the Bank's difficulties. For example, the Government's budget surplus means it is not inclined to issue large amounts of treasury bills, leaving a shortage of paper with which to conduct such operations. Another potential source of paper are the so-called Finance Bills, which are issued to the Bank of Japan by the Finance Ministry. However, the ministry has jealously guarded its right to issue such bills to the Bank at below-market yields, a factor which limits their use in open market operations.

Limitations on the negotiability of bank *certificates of deposit* makes them less than ideal as an instrument for operations, while commercial paper is of varying quality. There is no market in bankers' acceptances – the commercial bill that in the UK is a prime target for the Bank of England's open market operations.

Still, the reform of the sector is not yet complete. According to finance ministry officials, the next moves will attempt to bring more transparency to the collateralised call money market, where government bonds and other high quality instruments act as collateral. At the moment, interest rates in this market are fixed daily according to a formula, by brokers rather than by the participating banks in the market. The ministry wants to see the rates established in a more conventional way.

Legal restrictions on foreign institutions in Japan's short-term markets are now negligible, but they still face a web of corporate relationships with banks and interlocking shareholdings which are difficult to comprehend.

Japanese banks fight aggressively to retain their corporate relationship, as evidenced by the battle for the commercial paper market, a market to which the securities houses have been given access.

According to bankers familiar with the market, which opened in November 1987, much commercial paper is issued by companies to banks, and the proceeds are placed at higher rates in bank certificates of deposit or on time deposit. This loss-leading strategy would not be countenanced by a US bank, but is possible because many Japanese banks focus on their average rather than their marginal cost of funds.

Robert Thomson *on consumer credit*

Youth gets its cards

CREDIT SAISON is a consumer credit company, whose Saison Card, initially designed for in-house use in the group's department stores, has become an international credit card.

A problem of success is that the Saison Card is being used increasingly in the department-store competitors of Saison, according to Mr Satoru Hiromoto, a general manager at Credit Saison. So the company will have to start over again with a new in-house credit card.

The reflects the growing credit-consciousness of Japanese people. The annual growth rate of consumer credit in Japan over the last five years has averaged 11 per cent, with total consumer credit use in the year to end March 1989 at Y49,836bn, of which Y21,017bn was shopping credit and Y28,819bn consumer finance.

Mr Takashi Kasahara, senior manager of the individual banking division of Mitsui Bank, said young Japanese were the most important growth market for credit, as they carried an increasing number of cards – four or five, including house cards, was common – and were willing to purchase more on each card.

"A big difference is in the habits people have in using the cards," he said. "In the past, Japanese did not use the card unless they were making a purchase over Y10,000, but more and more young people are using cards for all their purchases.

"They start off with house cards, and when they settle into a company they give in to the pressure to get a credit card. When they reach 30 to 35, they want to get a gold card."

The largest issuer of credit cards in Japan is Nippon Shinpan, a consumer credit company, which, at the end of March last year, had 12m cards issued under its logo, and eight house cards issued on behalf of other, mostly retail, companies. JCB had 13.65m cards, Sumitomo Credit 11.6m, and Union Credit 8.73m.

Mr Shinichi Kazama, section manager of Nippon Shinpan's general affairs division, said that Japanese in their 20s and 30s comprised about 60 per cent of the new customers for cards, and that the average annual growth of cards over the last 10 years had been 14 per cent.

Credit competition is forcing diversification by Nippon Shinpan, which last year earned 29.3 per cent of its revenue from loans, 28.8 per cent from shopping loans, 15.2 per cent from guarantees, 12.7 per cent from credit cards, and 10.3 per cent from leasing. A mix of real estate and other activities made up the remainder.

The company is attempting to use the credit-card network to capitalise on the broadening interests of young Japanese, and has interests in English-language schools, a scuba-diving club, and an Australian beach-resort development.

"We are linking these things. We issue our credit card to the divers and then can offer them discount prices at the resort," said Mr Kazama.

As Japanese tourism abroad has increased, local cards have increased their tie-ups with international card companies, and so Nippon Shinpan, in October 1987, was the first non-banking company in Japan to secure agreements with Mastercard and Visa. In January 1988, Saison and Daiei, another department store group, also signed contracts with the two companies.

Saison has found that about 60 per cent of its new cardholders are women between the ages of 20 and 40, as the company has traded on the fashionable image of the department store group and of its connection to modern arts.

The balance of outstanding consumer credit has risen sharply in Japan, in contrast to the US, according to the Japan Consumer Credit Industry Association. In financial 1984, the ratio of consumer credit to disposable income in Japan was 12.1 per cent (in the US, it was 19.3 per cent); in 1986, the figures were 13.7 per cent (21.5 per cent), and in 1988, 17.7 per cent (20.9 per cent).

The continuing growth and increasing competition for the market has provoked often bitter wrangling between non-bank financial institutions and the banks, which also have numerous affiliates in the industry.

Arguments have become even more bitter in recent weeks, because the Ministry of Finance has just refused the non-banks permission to issue commercial paper. The ministry argued that the new funds could be used to issue excessive housing loans and further stimulate the land price spiral in Japan.

Nippon Shinpan and other non-bank institutions, which are overseen by the Ministry of International Trade and Industry (Miti), say the finance ministry's decision is part of a campaign of "non-bank bashing", while Mitsui and other banks say the ministry's decision was correct.

Mr Masashi Harada, deputy general manager of the individual banking division at Mitsui Bank, says that a bigger role for non-banks on the credit market could "result in big confusion", and disrupt the present orderly system of "banks providing capital at lowest possible interest rates, and paying the highest possible interest rates to our customers".

"On housing loans, there is no written rule, but under an understood argreement, banks will only provide money if people are buying their own house or building an apartment block. We do not give money to people who buy and sell land for speculation," he said.

But the non-banks say that 85 per cent of real-estate finance is provided by the banks and financial companies owned by the banks; and Mr Shinichi Kazama at Nippon Shinpan, said that the basic policy at the finance ministry appeared to be "to protect the interests of the banks".

He said that the non-banks wanted to issue commercial paper to diversify sources of fund-raising, and that, while they were allowed to issue warrants in Europe, that money could basically be used only for infrastructure and equipment spending, and not for lending to customers.

LEASING

Labour dearth is double-edged

Leasing contracts by size of firm						
	Financial year 1987			Financial year 1988		
Classification	Value of leasing contracts (in Ybn)	Component ratio (%)	Yearly change (%)	Value of leasing contracts (Ybn)	Component ratio (%)	Yearly change (%)
Large firms (with capital of Y100m or more)	2,151	40.6	107.4	2,756	41.0	128.1
Small- and medium-sized firms (with capital of less than Y100m and one-man firms)	2,947	55.6	115.1	3,688	55.1	125.5
Government agencies and others	198	3.7	102.3	283	3.9	132.8
Total	5,297	100.0	111.2	6,717	100.0	126.8

Source: Japan Leasing Association

FOR JAPAN's leasing industry, a growing labour shortage and continued economic growth have provided unexpected opportunities. Contracts for labour-saving technology, and for upgrading offices and factories, are keeping workforces content.

Business has been strong in recent years, with annual average growth in contracts of around 12 per cent, and profit growth of 14 per cent for the major companies. In the financial year to end March 1989, contract value rose 26.8 per cent, with industrial machinery contracts up 37.9 per cent and machine tools showing an increase of 47.2 per cent by contract value.

These are good times for an industry that still considers itself to be in the midst of maturation in Japan. The first leasing company was founded in 1963, and the industry is still consolidating, with long-established companies diversifying and newer entrants feeling their way.

Mr Shinichi Kashiwagi, a director of Diamond Lease Company, explained that his company was established in 1971 by Mitsubishi Bank. He, like other executives, has been seconded from the bank, and the company is yet to produce a homegrown executive.

"We don't really have a long history. We are looking forward to the next generation of Diamond Lease people running the country. Until now, we have not had people join this company and go through to the top," said Mr Kashiwagi, who worked for 30 years in Mitsubishi's accounting department before transferring to Diamond Lease seven years ago.

While leasing companies are benefiting from Japan's labour shortage, Mr Kashiwagi said that the shortage could also temper corporate ambition, slowing the strong growth in capital expenditure seen in the last year.

Japan's economy is expected to grow at 5 per cent in the year to end March this year, and the Government is aiming for a 4 per cent increase in fiscal 1990. The rate of job openings to seekers has hovered around 1.32:1, while the unemployment rate is at 2.25 per cent.

"The labour shortage is something we must think about. One change is that young people are very different from ourselves in that they won't do hard, sweaty work. They want to work in a neat, bright office and not in a rabbit hutch," Mr Kashiwagi said.

"A lot of companies are now thinking about redesigning their offices, so we are seeing more demand for related equipment and expect strong demand in the future in this area."

He suggests that rising interest rates will force cost increases to be passed on to customers, and could inhibit overall economic growth. In the past year, the Bank of Japan, the central bank, has lifted the official discount rate three times, and fears of a further increase have contributed to the instability on the Tokyo Stock Exchange.

In the year to end March 1989, leasing contracts totalled Y6,717bn, of which 55 per cent were to small and medium industries (capital of less than Y100m), 41 per cent were to large firms and 4 per cent to government agencies and others. About 45 per cent of contracts were for office equipment, including computers, with 16.2 per cent for industrial machinery and 5.6 per cent for machine tools.

A sign of the industry's consolidation, apart from a fall in new entrants in the past five years, is that long-established companies are emphasising new business areas. Orix, formerly Orient Leasing, has eight group companies involved in leasing, and opened its first leasing operation in 1964, but is shifting away from its traditional business.

Mr Kenji Kajiwara, deputy general manager of the president's office of Orix, said that while leasing is profitable, "we believe there are more profits in other areas". The company has bought a securities brokerage, established a real-estate business, begun manufacturing interior furnishings, and purchased a baseball team.

The purchase of the Hankyu Braves team in late 1988, from the Hankyu railway company, has sharply increased public recognition of Orix, which Mr Kajiwara said is a happy coincidence, because the company's new business activities benefit from a higher public profile.

"We had done a lot of research and found that our company was well-known among companies in the leasing market, but the general awareness was very low. We could only advertise our leasing business in finance magazines, not the popular papers or magazines. But now that is different, with our credit company and and real estate company," he said.

Orix now has offices in 20 countries, including a joint venture in China, but the internationalisation of the leasing industry was first spurred in the late 1970s by the Japanese Government's embarrassment at the country's growing trade surpluses.

In 1978, the Government passed regulations encouraging companies to increase imports, resulting in a surge in purchases of aircraft, which were then leased to foreign airlines. In less than two years, 31 aircraft valued at $934m were purchased and leased, with the sales marked up as imports but not exports.

The success of the exercise, which boosted the international expertise of Japan's leasing companies, encouraged the Government to amend the Foreign Currency Exchange Control Law in 1980, to permit a larger range of items to be purchased from and leased to foreign companies.

From 1981 to 1985, cross-border or "shogun leasing" is estimated to have totalled $13bn, with aircraft accounting for about half of the total, and other items including rolling stock and plant. The novelty of the practice began to wear-off with sharp appreciation of the yen, which magnified the local-currency burden of yen contracts, but the use of currency swaps and other financial devices has pushed business along again.

For the calendar year 1989, total leasing contracts were Y6,888.7bn, a 12.2 per cent increase, but leasing contracts in the month of December fell 3.9 per cent from a year earlier, which was a side-effect of the introduction of a 3 per cent value-added tax on April 1 last year. In the months before the tax's introduction, contracts surged, as company sought to beat the tax, and so, in December 1988, there was a 45.6 per cent increase in contract value.

Robert Thomson

As foreign securities companies feel the benefit of financial liberalisation...

US traders show their futures expertise

■ The Ministry of Finance: the success of foreign firms' in the equity business has been attributed, in part, to the rule that prohibits the major Japanese firms from trading in more than 30 per cent of any issue

Movement of fund raising (Ybn)			
Financial year	Domestic	Overseas	Total
1983	2,410.5	1,998.2	4,408.7
1984	3,149.3	2,844.5	5,993.8
1985	3,235.6	3,264.6	6,499.5
1986	5,183.5	4,118.2	9,301.7
1987	8,053.9	5,378.7	13,432.6
1988	12,307.3	6,907.7	19,215.0
1989 (10 months)	14,961.2	10,646.9	25,608.1

Source: Daiwa Securities

FOREIGN SECURITIES firms in Japan are finally beginning to see light at the end of what has been for many a long and tortuous tunnel.

Until recently, the chances of their having much of an impact on Japan's tightly-knit financial community seemed fairly slim. In the past, news concerning foreign firms had mostly to do with staff-cuts and profit losses, prompting constant speculation about who would be the next to go.

But, as financial liberalisation in Japan has gathered pace, new forces have been introduced into the markets, helping to loosen the tight grip of the large Japanese firms over one of the world's most lucrative industries. By taking advantage of these changes and putting more effort into developing a solid Japanese client base, foreign firms have been able to improve profitability while adding substantial weight to their presence in the Japanese financial world.

There is no doubt that the powerful Japanese firms still control the lion's share of the markets. But a number of foreign firms have also been quick to turn the new developments to their advantage.

Last year, 48 foreign securities firms in Japan were able to double their combined pre-tax recurring profits to Y15.93bn for the half-year to September 30, according to statistic released by the Nihon Keizai Shimbun, Japan's leading economic daily.

Another study by a foreign securities firm found that the 22 foreign firms that are members of the Tokyo Stock Exchange increased their share of activity on the TSE last year to 6.2 per cent.

The share of foreign firms on the bond market has also been on the increase. In the period from April to December last year, six foreign firms made 19.5 per cent of the successful bids for a total of eight long-term government bonds offered for tender. Overall, the proportion of Japanese Government Bonds (JGBs) offered for tender is only 40 per cent, with the remaining 60 per cent going to a bond syndicate, which is over 90 per cent Japanese.

But the foreign firms' share of successful bids for the tendered proportion was larger than the 18.8 per cent share of 16 Japanese city banks and long-term credit banks. Salomon Brothers, the US firm, was the biggest bidder in the March 10-year government bond auction, taking the maximum amount a single company is allowed of 72bn shares. The share of foreign firms in JGBs is expected to increase further when the proportion of bonds offered for open tender is raised to 60 per cent starting this October.

Pressure by foreign governments on the Japanese authorities to open up the country's financial markets and bring them more in line with international standards, has undoubtedly been a major force behind these changes. The decision to allocate a proportion of government bond issues by open tender was reached only after intense pressure from foreign governments.

The success of foreign firms in the equity business has been attributed, in part, to a Ministry of Finance rule that prohibits the major Japanese firms from trading in more than 30 per cent of of any issue.

"This helped to channel a substantial amount of business to foreign firms," says Mr Takeshi Murakami, Tokyo branch manager of Schroder Securities.

The development of Tokyo into an international financial centre, with the start of new products, such as futures and options, has been another major boost to foreign firms. This is particularly true of the large US firms, which have been able to make use of their advanced technical expertise in trading these new instruments.

Their skills in futures and options trading has helped the large US firms to keep their lead in market share among foreign firms on the TSE. Salomon Brothers placed first last year, followed by Morgan Stanley. Salomon's was also the biggest earner with pretax profits of Y3.6bn for the term to September 31, 1989.

The US firms have been noticeably active lately in stock index arbitrage, a trading technique that aims to make a profit by taking advantage of the price discrepancy between the futures and the underlying cash indices. The large US firms have been able to use their expertise in these fields to attract client commission as well as to make profits on their own account.

European firms have lagged behind in this area. Although Barings, the UK firm, came in an impressive second in pre-tax profits and third in market share last year, losses were conspicuous among European firms such as Barclays de Zoete Wedd and SBCI Securities.

No doubt there are a variety of reasons behind these losses but one Japanese broker who works at a UK firm says: "British firms are much more conservative than American firms. They are survivors and can survive in any environment. But companies that are strong on survival tend not to be spectacular performers in the good times."

Some foreign firms have found that developing strength in one particular area has helped them to pave a clear road to success. Last year, a spectacular surge of activity in the equity warrants market contributed strongly to the revenues of companies, such as Barings, which have traditionally strong warrants divisions. Schroders says that its strength in underwriting issues on the Euromarkets has helped attract Japanese equity commission business.

A marked change of attitude among Japanese investors is also working to the benefit of foreign firms. Many foreign brokers say that fund managers are becoming more concerned about their performance, and that this has led to far more interest than in the past in the fundamentals that drive the stockmarket. Fundamental research is an area in which foreign firms can boast strength. Institutional investors are looking at yield gaps and earnings yields, rather than assets and market themes, says Jonathan McClure, an investment strategist at Schroder Securities.

As acquisitions have become big business in Japan, with a growing number of Japanese firms buying into both US and European names, foreign securities companies have also been boosting their mergers and acquisitions capacity in expectation of a rise in cross-border deals ahead. Japanese firms have a wide network that brings them into contact with prospective Japanese buyers, but it is the foreigners who often have better access to the crucial information of who is up for sale.

Mr Murakami, at Schroders, says that the securities industry is now almost completely free of barriers to foreign penetration. As Japan's financial markets become more sophisticated and internationalised, and the peculiarities of traditional business methods give way to more universally standard practices, the chances for foreign firms looking better than ever before.

Michiyo Nakamoto

William Hall on the identity crisis of foreign banks in Tokyo

Still searching for the right role

TOKYO IS the capital of the world's second biggest economic power, and one of the world's three main financial centres. Yet no major foreign Bank at present in the city earns anywhere near a decent return on its investment.

Almost all of the major international banks are in Tokyo, in one form or another; but that is mainly because they cannot afford not to be if they want to be taken seriously.

Société Générale, Banque Nationale de Paris, Crédit Lyonnais and Barclays are the four biggest in terms of balance sheet size, with assets of just over Y1,000bn, or around $7bn apiece. However, their published profits are minute. The bulk of the foreign banks in Tokyo have balance sheets of under Y100bn ($700m) and over 40 per cent reported pre-tax losses in the last accounting period.

The four biggest foreign banks made combined pre-tax profits of Y3.1bn ($21m), in the year to March 1989, and at the net level the figure shrank to Y1.7bn ($11.2m). BNP, the biggest in terms of balance sheet and profits, made pre-tax profits of Y1.8bn, or the equivalent of $12m. Even the mighty Citibank, which employs 1,300 people in Japan and is more profit-conscious than most, only reported pre-tax profits of Y1.8bn ($12m), in its last financial year.

It may be true that some banks book much of their business elsewhere to avoid onerous Japanese taxes, but there is a limit to how much flexibility there is on this score. Foreign bank profitability in Tokyo has been declining for a long time, and as yet there is little sign of the trend being reversed.

In 1985, when the earnings of the 76 foreign banks fell by a third, they still managed to report pre-tax profits of Y14.6bn, or just under $100m. In the last financial year, the number of reporting foreign banks had grown to 83 but their pre-tax profits had fallen to Y10.9bn ($72m).

Even after crediting Y33.7bn ($224m), of extraordinary profits, the group earned only 0.08 per cent on their combined assets of Y21,856bns ($145bn). As a rule of thumb, a well managed bank can be expected to earn around 1 per cent on its assets. While no one would expect these sorts of return in Tokyo, the current infinitesimal margins cannot be acceptable over the longer term.

Total net interest income – the difference between what banks pay for their money and what they earn on their loans – totalled just Y15bn ($100m). It is no wonder that the banks are cutting back their loan books and emphasising the growth of their non-interest income which now amounts to Y266bn ($1.8bn).

When Stephen Mazloumian, treasurer of Barclays' operation, first came to Tokyo at the end of the 1970s, most foreign banks were conducting a typical commercial banking type business. "The market was closed, we were restricted in what we could borrow offshore and we had a niche lending foreign currencies to Japanese banks."

However, as the market was steadily opened up, the foreign banks found that their profitable niches began to disappear as the Japanese banks exploited their advantages of much cheaper cost of funds.

"Many people assumed that Japanese banks would suffer from liberalisation and the foreign banks would succeed," says Mr Mazloumian. "Nothing could be further from the truth. Everywhere is overbanked and liberalisation is a two-edged sword." While he is an advocate of liberalisation, the piece-meal deregulation has hurt the foreign banks more than the Japanese banks.

Until late 1988, for example, foreign banks were able to raise relatively cheap funds on the uncollateralised call money market. This market had been created specially for the foreign banks, because they did not have access to customer deposits.

"Unfortunately, many foreign banks insisted that it be liberalised. It was crazy, they were shooting themselves in the foot," says Mr Mazloumian. The Bank of Japan opened up the market to Japanese banks, and their entry pushed up interest rates.

Mr Ralph Ziegler, manager of Union Bank of Switzerland's large Tokyo branch, agrees. "There was some flawed thinking. If the cost of Japanese banks' deposits was pushed up by deregulation it would work in the foreign banks' favour. It has not happened."

The Japanese banks do not want to lose their customers, so they have been willing to lend below the marginal cost of funds which the foreign banks have to buy. There can be few countries around the world where the major corporate borrowers can issue commercial paper and then take a turn by lending the proceeds back to the bank through which the paper was issued.

The move towards securitisation has also made traditional commercial lending less attractive. The final straw for many foreign banks in Tokyo was the implementation of the Bank for International Settlements' capital adequacy guidelines. This has had a fairly significant impact on the balance sheets of the more weakly capitalised US banks, in particular, since it has highlighted the amount of scarce capital needed to make loans on which virtually nothing was being earned.

Balance-sheet size is still one way of demonstrating a bank's commitment to the Japanese market, but an increasing number of bankers feel that, apart from some end-year window-dressing, it cannot be justified. When there are periodic credit squeezes, as there is in Japan at present, the foreign banks reappear. However, increasingly they are only doing the business when a Japanese bank provides a guarantee, because this greatly reduces the capital backing needed.

Against this rather hostile background, most foreign banks are still struggling to find a role for themselves. A few of the smaller ethnic banks, which make no attempt to offer a full range of banking services, make reasonable returns. Some of the longer-established banks banks are still benefiting from cheap accommodation, and Citibank is attempting to challenge the Japanese in the retail banking market. Japanese personal customers are said to have been poorly served by most big banks over the years. But many foreign bankers are sceptical about the chances of success in this field for even an aggressive bank like Citibank.

Many foreign banks are facing an identity crisis in Tokyo. They have to decide whether to continue to be big international players – with all the costs that involves – or opt for something less ambitious. Success in Tokyo depends on a bank's focusing on its global strengths, such as trade finance skills, real estate contacts, or treasury products. "You need a carefully tailored strategy," says Mr Ziegler. "If you are just 10 per cent out in your costs, you feel it."

At the moment, many of Tokyo's foreign banks are plodding along and losing money, in the hope that, if they persist long enough, others will drop out. However, maintaining a Tokyo presence, with 400 or 500 people, is very expensive.

"In 10 years time, Tokyo will still have over 80 foreign banks, but what they will be doing will be totally different," predicts Mr Mazloumian. "There may be 10 major banks, and 20 to 30 niche players. The rest will have to accept no more than a token presence."

FT writers assess the presence of Japanese companies in HONG KONG . . .

The test-bed for global aspirants

HONG KONG has established itself as the number one destination for Japanese financial institutions expanding in Asia.

A steady flow of new arrivals from the banking and securities sectors has accompanied large investments in manufacturing, retailing and real estate, boosting the colony's Japanese population to over 11,000.

The past year has, in particular, seen interest from smaller securities houses and regional banks, many taking their first step out into the region. There are now 38 Japanese securities houses in the territory, while the number of licensed representative offices for Japanese banks grew from 20 in January 1989 to 31 by the end of February 1990 – including six approved but not yet in operation.

Part of the reason for this influx of regional banks is a need to follow domestic customers as they expand overseas, or risk losing long-established clients to bigger banks which already have large regional networks.

But this natural base of business is secondary in importance, for Hong Kong has assumed a role as a testing-ground for banks wishing to gain some international exposure, or build up experience in areas such as broking and underwriting closed to them back home because of article 65, Japan's version of the US Glass-Steagal Act.

The territory's traditional role as a jumping off point for China-related business is also an attraction, though political uncertainty has depressed activity in this area. In addition, Hong Kong is an important offshore centre through which loans are booked.

According to statistics from the colony's banking commission, in 1988 Japanese-owned banks accounted for deposits totalling HK$80bn, representing a 9.5 per cent share of total deposits in the banking system, which were valued at HK$846bn. However, broken down by size of assets, their share amounted to HK$2.08bn out of HK$3.698bn, or 56 per cent. The large discrepancy between assets and deposits, and the fact that over 90 per cent of the assets of the Japanese banks were foreign currency-denominated, illustrates this use of Hong Kong as an offshore booking centre.

Though Japanese banks are increasing their share of the territory's deposit base, they are unlikely to make dramatic inroads, because the only way to get a multi-branch licence is to acquire an existing bank.

Competition at the retail level is between the established banks with branch networks, said Dr Alan McLean, chief economist at the Hongkong Bank. Aside from the local banks, these are primarily Standard Chartered, from the UK, some old established US banks, and the banks within the Bank of China group. The latter have a market share of around 20 per cent of deposits.

Despite the lack of a large Hong Kong dollar deposit base, Japanese banks still play a substantial role in syndicated loans put together in the colony, few of which are without substantial Japanese participation.

Such loan business is the bread and butter of the Japanese banks in Hong Kong, but some, like Bank of Tokyo and Industrial Bank of Japan, have expanded into areas such as the underwriting of new equity issues. When department store group Yaohan was floated on the Hong Kong Stock Exchange, in September 1988, seven out of the nine underwriters were Japanese securities houses or broking subsidiaries of big banks.

These included BOT International (HK) and IBJ Asia, co-operating with established broking giants back home such as Nomura International and Yamaichi International. It is the opportunity to get involved in such transactions, first in Hong Kong, and then using the experience to move elsewhere in the region, that is of particular attraction to the big banks operating in the colony.

Ashley Ashwood

On top and in front: Japanese business names already abound in the colony

Despite the lack of a large Hong Kong dollar deposit base, Japanese banks still play a substantial role in syndicated loans that are put together in the colony

For their part, the securities houses have also been arriving in large numbers. Most are small one- or two-man offices, doing little or no research, being initially content to gain experience within the region. Their swelling numbers have made the business of selling Japanese equities intensely competitive in Hong Kong, and make most offices loss-making ventures designed to build a presence for the future.

Life insurance companies, with vast funds to deploy and a desire to increase their weighting in Asian equities, are also in Hong Kong. No fewer than three have emerged as holders of 1 per cent of the share capital of the Hongkong and Shanghai Banking Corporation, of which no investor may hold in excess of 1 per cent without board approval.

Last month, Nippon Life Insurance disclosed its stake, a month after Meiji Mutual Life Insurance announced a holding, saying that it wished to seek co-operation with the Hongkong Bank in areas such as information-sharing and the possible sending of trainees to Hong Kong.

In early 1989, Dai Ichi Mutual Life Insurance also announced that it held 1 per cent and was seeking co-operation with the Hongkong Bank. Clearly, despite the political uncertainty in the run-up to 1997, Hong Kong remains a major target for Japanese companies as they achieve greater prominence throughout Asia.

The territory remains a large market for Japanese exports, while Japan's involvement in the local manufacturing sector is second only to the US in terms of overseas participation. Most popular are electronics and electrical products. By bringing in new technology, Japanese companies have established themselves as major tenants at Hong Kong's two industrial estates – government land set aside for new technologies or companies requiring special processes or heavy equipment, which would be impracticable in many traditional high-rise factories.

Companies such as C.Itoh, as well as Allied Kajima, have significant interests in local real estate, while most conspicuous of all has been EIE International, which acquired 50 per cent of the bond centre office building from Bond Corporation International in 1987, and last year bought out its partner to become the sole owner of one of Hong Kong's most sought-after addresses.

Japanese companies also dominate the local department store sector, with chains such as Yaohan, Sogo, Daimaru and Mitsukoshi – household names in Hong Kong. And in the construction industry, companies with Japanese links, such as Kumagai Gumi HK and Gammon Nishimatsu, are formidable competitors.

Perhaps it is the construction sector which holds the greatest promise for further Japanese inroads. Contracts will soon start to be awarded for the huge new airport, port and related infrastructure projects, at a total cost of HK$127bn.

Japanese contractors are likely to be at the forefront, and, with 50 per cent of the financing to come from the private sector, this should provide a natural source of new loan business for the Japanese banks in the territory.

Michael Marray

. . . in EUROPE . . .

London is the springboard

THE GROUND in London has literally been thundering to the sound of Japanese financial institutions.

Following a mass of new arrivals in recent years, there are now no fewer than 50 Japanese banks in the City and 37 securities houses, making the Japanese the largest foreign financial community after the Americans. But while the US presence is dwindling, the Japanese continues to grow, and will probably become the largest next year.

In addition, a dozen Japanese banks have obtained listings for their shares on the London Stock Exchange. One of the most recent was Tokai Bank, whose European managing director Mr Kazuaki Ohmori said it was taking the step to increase awareness of its name in the market at a time when it was expanding in Europe – a view that all the other Japanese arrivals would echo.

From the European viewpoint, this invasion has been a dramatic demonstration of the international ambitions of the Japanese financial community, and it has been greeted with a mixture of fear and respect. Fear for the might of Japan Finance Inc, but also respect for the deliberate and orderly way in which the Japanese houses have planned their advance.

But the approach of the Japanese appears to be changing. In the 1980s, the emphasis was on building up volumes: Japanese banks emerged as dominant players in the Eurobond issuance market, and in international loan syndication. They also took a large slice of specific UK markets like local authority finance and foreign currency lending. Typical of their approach was their heavy involvement in the financing for the Eurotunnel, where they took 30 per cent of the bank finance.

But none of those markets is particularly profitable, and the banks' interest is now switching towards more fee-driven business, particularly corporate finance and investment banking.

A clear instance of this was the acquisition last summer by Bank of Yokohama of Guinness Mahon, a City merchant bank. It was a small deal (less than £100m), but it marked a significant "first" in UK banking. It also appeared to reflect the Japanese banks' growing expectations of deregulation in their home market, and therefore the need to take advantage of London's relatively relaxed regulatory regime to gain experience of new lines of business.

Another instance was the decision by the Industrial Bank of Japan to join the London Stock Exchange and launch an equity trading business – something it would not have been allowed to do in Tokyo. A further departure has been in the direction of fund management. In December, Bank of Tokyo bought out its joint venture with Touche Remnant to form what it claims is the largest Japanese fund management business in London, with $2bn of assets.

Virtually all the leading banks and securities houses are also developing mergers and acquisitions business, marking a clear advance into the realms of "intellectual" banking: the giving of corporate finance advice. This has entailed their hiring a number of European corporate finance specialists and adapting more closely to the City of London "culture".

One area where the Japanese have not yet shown strong interest is retail financial services: they all say their expansion wil be in the wholesale and institutional banking and securities markets. There have, nonetheless, been minor exceptions. Sumitomo Bank made a small sally into mortgage lending, and it was strongly rumoured that an unnamed Japanese bank was among the serious bidders for the Yorkshire Bank, the regional retail bank which was put up for sale at the end of last year.

A particular reason for expecting further banking arrivals in London from Japan was the resolution at the end of last year of a long running dispute between the UK and Japan over reciprocal access to the Japanese market for UK banks and brokerage houses. Although the Bank of England would never admit it, it was discouraging Japanese banks from applying for licences until two UK houses, BZW and James Capel, were granted seats on the Tokyo Stock Exchange. That has now come about, and several Japanese regional banks are now understood to be in line for authorisation in London.

This was highly untypical of the UK, which has always prided itself on the openness of the City's doors. But it reflected the strength of feeling in the City about what was considered to be unfair practice at the Japanese end.

Looking ahead, there is little doubt that a major impulse for the growth of Japanese banking in Europe is the prospect of the single market after 1992. In order to benefit from the single market themselves, Japanese banks and securities houses will have to incorporate a subsidiary in at least one EC country.

So far, most of them have chosen London, recognising its leading role as the financial centre of Europe. But some are also looking elsewhere. For example, Mitsubishi Bank is in the process of deciding where to locate its European headquarters. According to Mr Tsuneo Wakai, deputy president, it may opt for Frankfurt rather than London, because of the growing importance of the German market.

As it is, many Japanese banks have already opened up subsidiaries or branches in Germany, which is possibly their second most popular European country. Their next steps are likely to be in France and Italy. They have been represented for some time in Switzerland, which is an important market for their securities issue business. Six years ago, Sumitomo Bank bought a large stake in Banco del Gottardo, which, until the Guinness Mahon/Yokohama deal, remained the largest Japanese bank acquisition in Europe.

Aside from seeking to build up their European business, Japanese financial institutions are keen to get closer to the European market because of the strong interest being shown by the Japanese corporate clients in expanding in Europe as well. And that includes the new opportunities arising in East Europe.

Japanese bankers and brokers all expect to see a high level of merger and acquisition activity by Japanese companies in the years ahead, and they want to be in a position to advise on and finance deals.

David Lascelles

. . . and in the US

Alliances and xenophobia

JAPANESE investments in the US, whether on Wall Street or in the depths of Tennessee, have had a noticeable impact on both the American economy and the American mind.

Japan now ranks second only to Britain when it comes to investments in the US – and if the rate of growth remains constant, Japanese investments will surpass British this year.

Last year, publicly-reported Japanese acquisitions of US corporations climbed 8 per cent, to a record $13.7bn, from $12. Japanese industrial companies and financial institutions took part in 174 takeovers and related transactions, compared with 130 deals in 1988, according to Ulmer Brothers, a New York-based investment bank which specialises in merger-related business between US and Japanese companies.

According to the Japanese Economic Institute, Japan directly invested $53.4bn in the US in 1988, up $20bn from the previous year.

The public reaction to this increased Japanese presence is, at times, almost screamingly xenophobic. The rate at which Japanese investments have grown is partly responsible for the public outcry. But equally important are the fears that Japan is usurping the US as the world's pre-eminent economic and industrial force. Furthermore, there is the memory of Pearl Harbour, which may explain why Americans but have not reacted as vehemently to the huge British and Canadian investments in the US.

Americans may express concern about the volume of Japanese investments in their country, but when it looks as if those levels may trail off, Wall Street gets the jitters. Nowhere was this clearer than in the Government's $30bn quarterly refunding auction in February. During the month before the auction, the Street was shaken by persistent rumours that Japanese buyers would stay away unless there was a sharp rise in yields. US bond and stock prices moved broadly lower as a result.

In the end, bidding demand fell short of average, but was not the catastrophe that some analysts had expected. Japanese investors bought between 20 and 25 per cent of the Treasury's 30-year bonds, although bidding was stronger than expected for three-year notes, at 35 to 40 per cent. This compares with Japanese bidding for between 35 per cent to 40 per cent of the 30-year issues in August, and 15 to 17 per cent of the three-year notes.

According to one analyst, the flow of Japanese capital into the US Treasury bond market is so powerful that it has broken the traditional relationship between interest rates and the business cycle.

Eight of the primary dealerships in US government securities are now in Japanese hands. This requires them to bid at the auctions to maintain the franchises they fought hard political battles to win.

US bonds have been attractive to Japanese buyers, because they are considered to give higher yields than those issued in yen, even though the dollar may be softer than the yen. However, when the yen appreciated sharply against the dollar last year, some Japanese investors incurred big losses.

A number of Japanese and US financial institutions are forming alliances in order to have access to each other's markets. For example, in 1989 Security Pacific Corp agreed to sell Mitsui Bank a 5 per cent stake of its consumer and commercial services groups, which serve a US market the Japanese have found hard to crack.

Yasuda Trust & Banking, one of Japan's biggest trust banks, last March took a 49 per cent stake in a new venture with certain principals of a closely-held Chicago consulting firm, Merger & Acquisitions Strategies which acts as an adviser on medium-sized takeover and mergers, although it doesn't take a financial role in the transactions. According to a manager at Yasuda, they will together locate Japanese inventors for M&A transactions introduced by M&A Strategies.

The concept of mergers and acquisitions is still relatively new in Japan. Yamaichi, one of the four top securities companies in Japan, last year formed an investment banking joint venture with Lodestar, an American investment bank specialising in mergers and acquisitions.

Conversely, a number of US firms are entering partnerships with Japanese companies, in order to have greater access to Japanese markets. Pacific Networks last year entered a strategic partnership with Yasuda, which will act as First Pacific's exclusive representative in Japan.

Mr Taro Nakayama noted a change in American people's fears

In order to have access to the huge flow of institutional funds in Japan, Wells Fargo last year formed a joint money-management venture with Japan's Nikko Securities. The alliance will give Wells Fargo access to Nikko's huge client base in Japan, where Nikko is a leader in index-based investing, in addition to Nikko's base in Europe.

Nikko is paying $125m for what is effectively a half-share in two Wells Units, Wells Fargo Investment Advisors and the parent's Wells Fargo Bank Advisors Trust division.

In exchange, Nikko will benefit by having access to Wells' expertise when the Japanese pension-fund business opens up to 73 securities firms for the first time this year.

Wells Fargo is already the adviser for a fund Nikko established late in 1988 for Japanese investors to purchase US stocks and bonds.

Perhaps the most emotionally wrenching Japanese investment for Americans to digest was when Mitsubishi Estate took a $846m, or 51 per cent, stake in the Rockefeller Group last year, giving Mitsubishi control of New York's Rockefeller Center.

The biggest investment by a Japanese company in the US last year was when Sony paid $3.45bn for Columbia Pictures Entertainment.

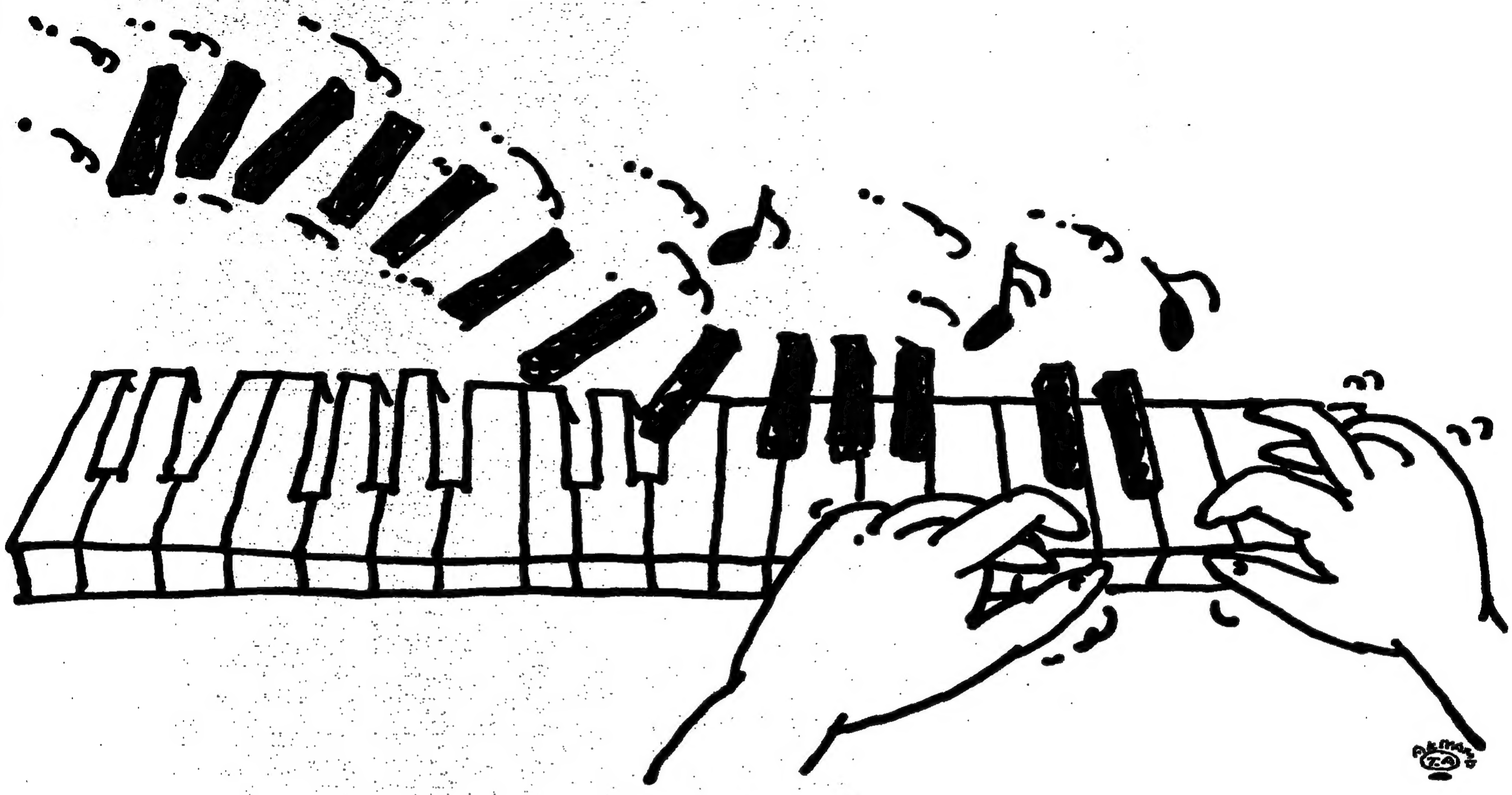
These big investments cause a certain amount of friction, which was recently noted in a speech by Japan's Foreign Minister, Mr Taro Nakayama. "It is worth noting that now people in the US are feeling less threatened by the USSR and some are expressing the view that the economic threat from Japan is more serious than the military threat from the Soviet Union."

In order to help allay fears over Japan's huge investments in the US, the Japanese Government recently said it would offer Japanese companies large tax deductions if they give money to US hospitals, schools or philanthropic activities.

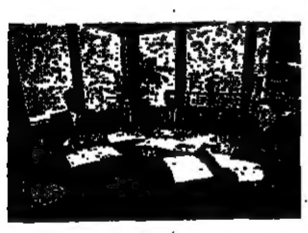
The Japanese Chamber of Commerce has also distributed 5,000 copies of an 85-page handbook, containing advice to Japan-based companies in America on supporting local charities and volunteering to work for local organisations.

However, the future is far from certain. The recent political changes in eastern Europe may have dramatically altered the outlook for future Japanese investment in the US, and there is already talk that the Japanese are starting to look east instead of to the US for future investments. Americans may find themselves wishing for a return of the days when the nation was the apple of the Japanese investor's eye, willing to pay high prices for US institutions.

Karen Zagor



We arrange only those mergers that we know will result in long-term business harmony.



Think together, grow together

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It could be the prelude to a great joint performance.

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William Hall on corporate finance in a changing climate

Making the most of the surplus

CORPORATE treasurers the world over must envy their Japanese counterparts. In the last few years, Japanese corporations have enjoyed a near-perfect equity environment.

The steady re-rating of Japanese corporate paper – average price-earnings multiples have doubled since 1983 – has meant that companies have been able to raise sums of money undreamt of ten years ago.

UBS Phillips & Drew estimates that Japanese companies raised Y26,700bn last year, which was 50 per cent more than the year before, and roughly five times as much as five years ago. In 1989, corporate fund raising was the equivalent of $178bn, which is more than the combined stockmarket capitalisation of all but the half dozen biggest markets around the world.

The rapid rise in the Japanese equity market over the last few years has resulted in breathtaking stockmarket capitalisations for Japanese companies, which in most other respects are little different in size from their overseas rivals.

NTT, Japan's biggest company, is capitalised at over $130bn, yet its workforce is no bigger than that of British Telecom, which is capitalised at around $30bn, and considerably smaller than that of AT & T, which is capitalised at just over $40bn.

Much of the money raised by Japanese companies has gone into funding ambitious capital investment plans, overseas acquisitions, and debt reduction. However, because they are not constrained by concerns about earnings-per-share dilution, which would normally curb most western companies' appetite for new capital, many have taken full advantage of their heady stockmarket ratings to borrow more money than they need. Japan has come to be an investment banker's paradise.

One visible result is that financial profits on deploying this surplus liquidity have come to loom increasingly large in many corporate profit-and-loss accounts. In recent years, it has been quite usual for recurring profits to exceed operating profits, because of financial transactions. According to a recent Nihon Keizai Shimbun survey, interest costs of the 1,029 major Japanese companies rose by 10 per cent, to Y2763bn, in the six months to September 1989, while financial income rose by a third to Y1,935bn. This led to a one fifth fall in net interest charges.

This was all very well when the stockmarket was going up. But the near-10 per cent fall in Japanese bond prices since the end of the year, and the even bigger fall in Japanese equity prices, has meant that financial transactions are now endangering Japanese corporate profit growth, as opposed to enhancing it.

Mr Akira Suzuki, Morgan Stanley's respected Japanese strategist, says that many companies which engaged in *zaitech*, or financial engineering, now face capital losses and this will eat into corporate profits which were already not as strong as they seemed.

There are several basic ways in which Japanese corporations can increase the yields on their surplus liquidity. They can go down the scale of credit quality, in search of higher returns;they can increase the maturity of their investment; or they can take positions and risk the market going against them. The degree of financial aggressiveness varies greatly.

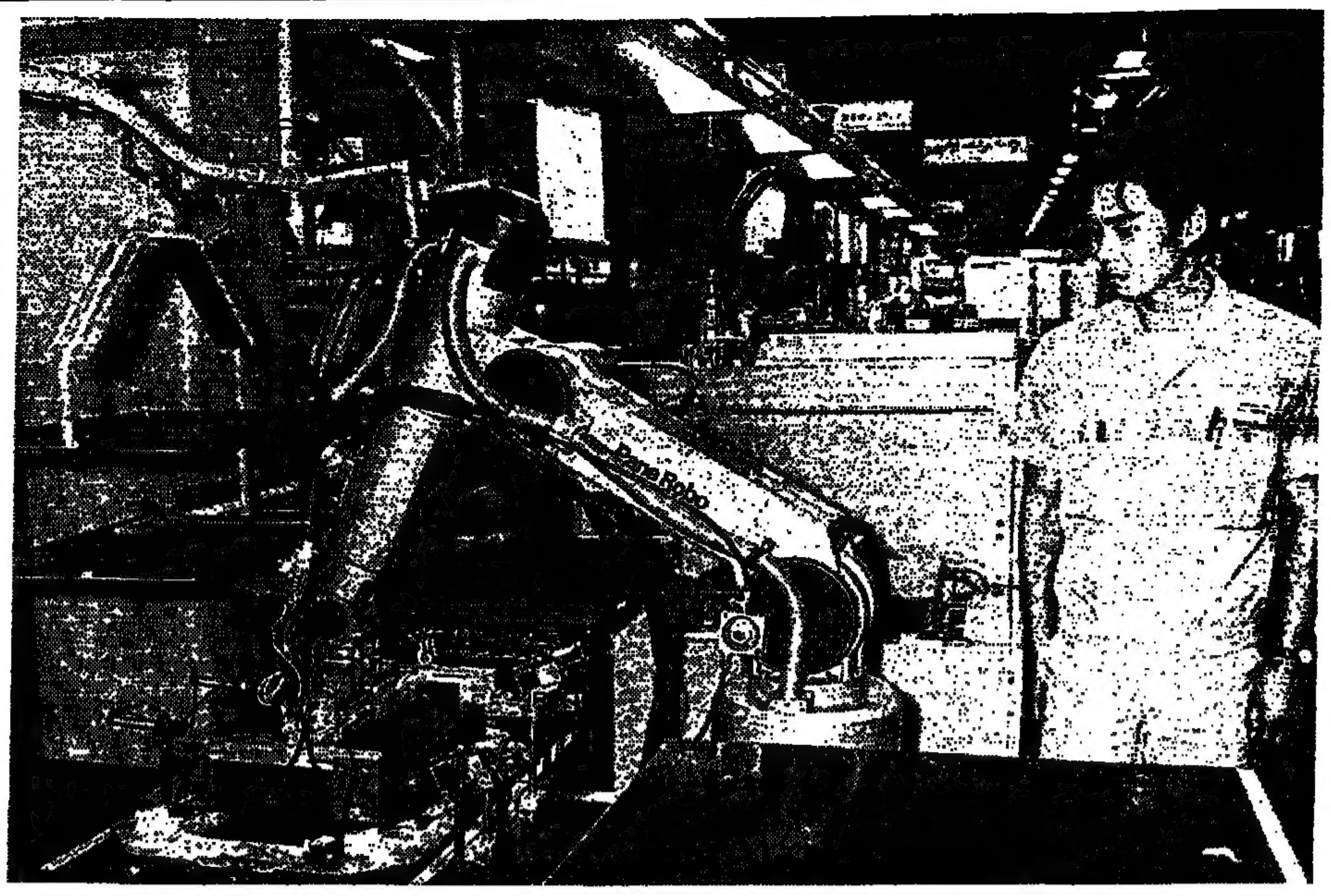
Matsushita, which in terms of size, ranks among the top half dozen non-financial Japanese companies, is very much at the conservative end of the spectrum. It has no short-term borrowings and liquid resources of Y1,575bn, or around $10.5bn. The biggest portion – Y656bn – is in cash or cash-equivalent; Y607bn is in marketable bonds; and another Y312bn is held in securities. Despite its inherent conservatism, financial profits in its last financial year increased by 27 per cent to Y89bn and accounted for 17 per cent of the group's pre-tax profits.

The majority of its surplus liquidity is invested in fixed-interest markets and overseen by the corporate financial and accounting department, based in Osaka, which reports to Mr Masahiko Hirata, one of the group's executive vice presidents. The primary purpose of the financial department is to maintain adequate cash reserves, to meet the group's capital needs.

The two key elements of Matsushita's investment strategy centre on ensuring the safety of the principal, and the marketability of the various investments. The need to make a profit is regarded as subsidiary. Foreign exchange dealing is limited to the group's own currency needs, and does not involve position-taking.

The company has no specific limits on the size of its various investments, but it does not invest in equities directly, and real-estate investments are limited to a subsidiary, Matsushita Industrial Development Company. It does use Tokkin funds, but if protects its exposure by limiting its investment to the amount which can be covered by the latent profits on its investment in bonds.

If the Japanese equity market were to drop by another 25 per cent, Matsushita says it would have little impact on its performance, because of its heavy weighting on fixed-income investments. Less conservatively managed Japanese companies cannot afford to be so sanguine.



Precision assembly of VCRs at the Osaka factory of Matsushita: the company is just as careful with its money

Michiyo Nakamoto on the training of young brokers

Generalists, not specialists

JAPANESE securities firms take the long-term approach to staff training.

Lifetime employment is still the norm, and training is an important investment. "The company cannot grow unless each employee grows," says an official at a leading Japanese securities firm.

Like most Japanese graduate employees, the recruit at a securities firm begins training early in the first month on the job at the company training centre. There, dozens, and often hundreds, of young recruits spend their days and nights together. One former trainee described it as "like being squeezed into a can for several weeks." The trainees are there to experience a group initiation into the ways of the securities industry, and of the firm they have joined.

Nomura Securities, which accepted 500 new employees this year, will send 170 of its recruits to one company training centre, 200 to another, and the rest to a rented facility when training will last from mid-April to early June.

For over a month, five days a week, eight hours a day, trainees from all over the country attend lectures and seminars together. They share rooms, meals and a communal bath. Group discussions and private meetings with their instructors often extend late into the night.

Freshman training is as much an opportunity for the new employees to get to know each other as it is for them to get to know the company and its corporate culture. After the training session, they will once again break up, as they take up their new posts at headquarters or in branches.

Training in the initial years plays a crucial role in laying the foundations for a stockbroker's future with the company. Through formal, group training and less formal, on-the-job training, the newcomer in a Japanese securities firms is expected to accomplish two objectives early on in his career.

The first is to acquire a basic knowledge of the securities business. The second, which is just as important, is to get to know the company, its structure and its resources, and how to make use of the various services available. Learning to become a company man is just as important as learning to become a stockbroker.

"The first year is a time for the new employee to build his foundation as a Nomura man," says Mr Shigekazu Wakabayashi, manager of the education and training department, at Nomura Securities.

Apart from the basic manners and skills that will distinguish him as a Nomura man, each employee must learn to identify his role within the organisation. Through role-playing and case studies, trainees are taught to recognise what is required of them at a specific time under specific circumstances.

After their formal training period, the young recruits report to their assigned jobs. Those destined to become salesmen are sent to a branch office where they are taken under the wing of experienced brokers – their *senpai*.

A senpai acts as an older brother to his younger colleague, teaching him the ropes, offering practical advice and encouragement, often in after-hours sessions at the local bar. "Japanese companies have a pyramidal structure, with the older employees looking after the younger ones," says a Japanese broker who now works for a foreign firm.

For the first few months, first-year salesmen are taken around by their senpai to meet clients. Most companies do not impose quotas on their salesmen for the first year. Even at Nomura Securities, which is widely thought to be strict on quotas, Mr Wakabayashi insists that this is so. Even so, at Nomura quotas are thought to have a beneficial influence. "Our image of quotas is positive," says Mr Wakabayashi.

It is not long before new salesmen must face up to the need to fulfil quotas – the most stressful part of the job, according to many brokers who left their Japanese jobs to join western firms. After a year or two, the newcomer is expected to contribute to the sales quotas that are handed down to the entire branch.

"Selling equities is not so difficult, but unless we can fulfil the entire quota that includes investment trusts and bonds, we are judged a failure," says one former employee of a Japanese securities firm. There is intense pressure on everyone to contribute to the branch quota, and women employees, the so-called "window sales ladies," are not exempted from the rule.

A first-year salesman at Nomura Securities goes through several more training sessions during the year, which generally last a few days each. In addition, staff from the education and training department travel to the various branches to see how their trainees are getting on.

Training continues in the second and third year, although the number of training sessions falls to two or three a year. Nomura Securities has further training sessions for employees who have been with the company for seven years, those who have been employed for 10, and for branch managers.

Employees of Japanese firms are often moved around from one section to another. This is true in securities firms, too, where promising employees will be given first-hand experience of various aspects of the company's business. The main difference between western firms and Japanese firms is that Japanese firms train their elite to become generalists rather than specialists. A bond trader might suddenly find himself having to sell equities and vice versa.

By the end of the first year, there is a review to assess whether each employee is suited to his particular job. Young brokers are normally given a few years to prove themselves. Contrary to popular belief, creativity is highly valued and brokers are encouraged to come up with ideas that might lead to business opportunities.

Nevertheless, in the end, a stockbroker's sales record is what determines the final judgment. "The figures show whether someone is suited to sales or not," explains a Japanese broker. In this respect, Japanese securities firms are no different from their western counterparts.

But employment in Japan is still widely seen as a long-term commitment, and firms will seldom fire their employees – not least because they have made a considerable investment in training them. As one broker said: "If a salesman cannot generate the expected orders, a US firm will sack him, while a UK firm will make it extremely uncomfortable for him to stay. Japanese firms will just find him a different job within the company."